

**FROM FAWN TO DEER:  
MEASUREMENT OF A BIOLOGICAL ASSET**

**BY**

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## EXECUTIVE SUMMARY

This case provides a study on agriculture activity by Universiti Utara Malaysia (UUM). The purpose of this case is to create greater awareness for students on both the accounting framework and methods recommended for specific assets in agriculture activity, i.e. biological assets. The use of standard measurement of other non-current assets such as property, plant and equipment is not relevant for biological assets, as this type of asset has different characteristics and purposes in business. This case provides students with experience in explaining the nature of an organization's agriculture activities and accounting for biological assets as recommended in the Malaysian accounting framework. In addition, students are also exposed to the current issue in accounting standards, such as public interest and ethical issue. In this case, Mr Azri, an accountant at UUM and also a leader for asset unit was responsible for reporting the value of all assets in UUM, including 'living assets' or 'biological asset'. Recently, he was instructed to accurately recognize, measure and disclose the value of 'biological assets' according to appropriate accounting standard. Furthermore, UUM is urged to replace the existing accounting standard of the Malaysian Private Entity Reporting Standard (MPERS) to the Malaysia Public Sector Accounting Standard (MPSAS). Mr Azri is now considering whether to change the use of the current accounting Standard and how to account and report for biological assets according to the new accounting Standard. This case is a decision or "unfinished" case which is suitable for Financial Accounting and Reporting courses.

*Keywords:* Biological assets, public universities, agricultural activities, financial reporting

# TEACHING CASE

## 1.1 INTRODUCTION

*Every morning Azri uses the same path heading to his office in Universiti Utara Malaysia (UUM). Every time he enters the UUM's entrance, the green scenery and the fresh air of UUM's tropical lush never fail to impress him. The ambience of UUM is so peaceful and calm. UUM is known as the 'University in a Green Forest'. It is watered by two rivers that flow along the middle of the campus. Azri pulled his deepest breath. "Fresh!" he whispered.*

*Moving around the campus, he can see the ostrich, horse, peacock, duck, deer and many more animals that become the main attraction to those who come to UUM. As long as he can remember, these animals are reported as 'living assets'. Mr Azri is the UUM's accountant at Bursar Department, and he started to mainly review these assets after he had been transferred to the Asset Unit as the head of the unit. Not only 'living assets', but this unit was also made responsible to in charge the entire assets in UUM. In terms of reporting, the task of his group is to prepare the financial report of UUM's assets, including the 'living assets'. Suddenly, his tranquillity was disturbed. He remembered the order came by the UUM's Bursar last week, to accurately recognize, measure and disclose the value of 'living assets' according to appropriate accounting standard. All this while, UUM was using Malaysian Private Entities Reporting Standards (MPERS) in reporting and preparing the UUM's financial statements. Recently, the Malaysia Public Sector Accounting Standard (MPSAS) has been urged to be used to replace MPERS in reporting and preparing the UUM's financial statements. Azri thought whether to change the current Standard and if so, how to treat and disclose biological assets under the new accounting Standard.*

*Last few days when he attended the meeting at TISSA-UUM building, he coincidentally met with one of the financial accounting lecturers, Dr Sitra. They had a small conversation about his job scope. Dr Sitra also impressed when she knew that Azri is the officer who in charge of the reporting of the 'living assets' in UUM. But when Dr Sitra told him that these assets are called "biological assets", he had no clue.*

*"Biological assets?" he raised his eyebrows. Dr Sitra continued asking him on how these assets are managed, measured, recognized and disclosed. He left speechless for a few seconds. Then he replied - "Based on the current practice, these assets will be expensed in the current year of acquisition and not capitalized". Dr Sitra asked why the assets aren't capitalized, and Azri remained in silence. However, the conversation made him wondering – "These animals and plants, they are not static as they are growing and increase in quantity. By expensing these assets would be misleading in representing its value which does not reflect the value of total assets of UUM". He was thinking that this is the right time for his unit to start accruing the value of the biological assets in accordance with the appropriate accounting standard as proposed by the Bursar last week. The sense of urgency has now become more intense.*

*Besides attending the workshop to comprehend the accounting treatment of these assets, Azri believed that Dr Sitra would be able to help him for the initial start of recording the biological asset according to the relevant accounting standard. Dr Sitra and her colleagues agreed to help Azri as this is an exciting platform for the financial accounting lecturers to apply what they teach to students in the class. Azri and his team should start with one group of 'living asset' first. Therefore, Azri chose deer as the first target group of the animal to record the value according to the suitable accounting Standard. The reason to select deer as the first group of the animal to record is that the campus rears almost 200 deer. It is believed to be the significant population of the living animal on campus.*

*However, beforehand it is essential to understand the concept of 'Biological Assets' from the accounting view. Dr Sitra and the team have explained to Azri in brief regarding the biological assets and the accounting treatment practised by public listed companies (PLC) in Malaysia. However, Azri is now wondering the appropriate accounting treatment and disclosure requirement in reporting this 'living asset'?*

## **1.2 BACKGROUND OF THE INSTITUTION**

Universiti Utara Malaysia (UUM) is one of the public universities in Malaysia. A public university is a university that is publicly owned or receives significant public funds from government, as opposed to a private university. In Malaysia, it is overseen by the Ministry of Education (Kementerian Pendidikan). The primary legislation

governing education is the Education Act 1996. There are several public universities established in Malaysia, which are funded by the government but administered as self-managed institutions. The classification of tertiary education in Malaysia is organised upon the Malaysian Qualifications Framework (MQF) which seeks to set up a unified system of post-secondary qualifications offered on a national basis in the vocational and higher education sectors. From 2004 to 2013, the government formed the Ministry of Higher Education to oversee tertiary education in Malaysia.



**Figure 1: UUM – University in a green forest**



**Figure 2: A part of UUM green scenery**

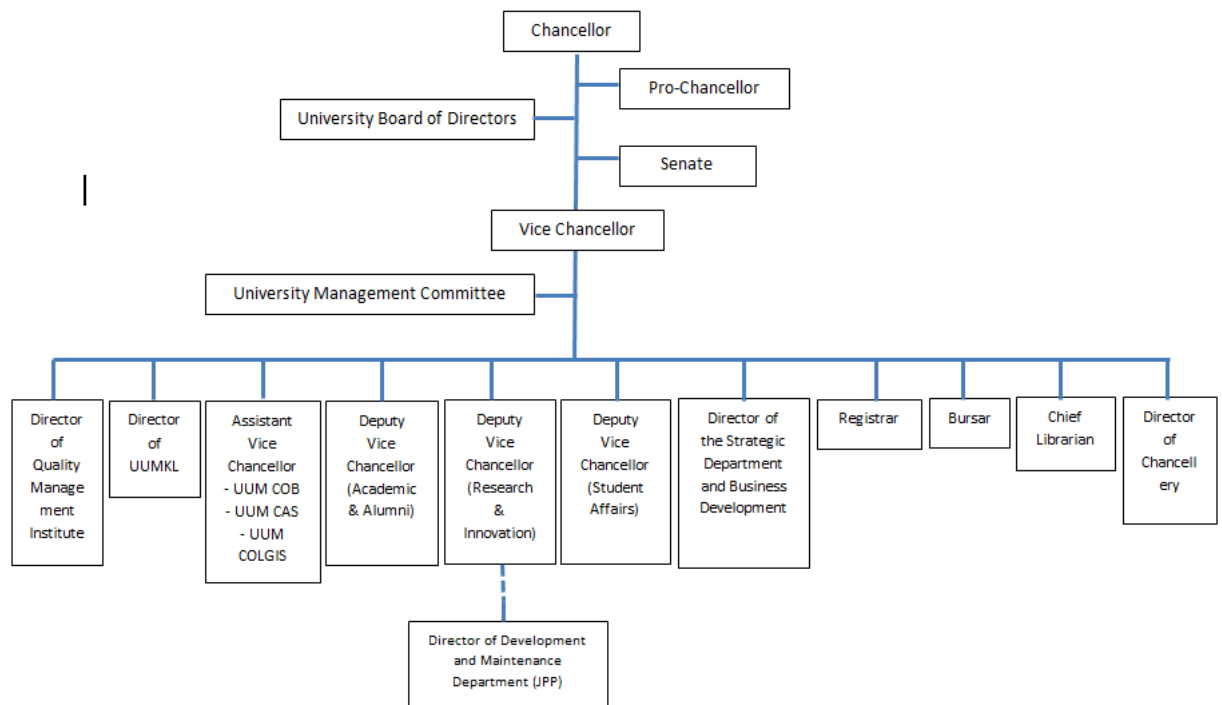


UUM was built on an area of 1,061 hectares in Sintok (in the district of Kubang Pasu). The permanent UUM campus referred to as the Sintok Campus, began operations on 15 September 1990. In a former tin mining area, it is in a valley of lush tropical forests, embraced by blue hills, and watered by two rivers that flow along the middle of the campus. The rivers are Sungai Sintok and Sungai Badak. The Sintok Campus which was opened on 17 February 2004 by the Royal Chancellor, His Royal Highness Sultan Abdul Halim Mu'adzam Shah valued more than RM580 million. The main buildings are the Sultanah Bahiyah Library, the Chancellery, the Sultan Badlishah Mosque, the Mu'adzam Shah Hall, the Tan Sri Othman Hall, the Sports Complex, the Varsity Mall, the Budi Siswa building, the Convention Complex, and the premises of the academic colleges. The campus is 48 km north of Alor Setar and 10 km south of the Bukit Kayu Hitam and is near the Malaysia-Thailand border. Other nearest towns are Jitra and Changlun.

Due to its vast land area, the university has used 107 hectares of forest to develop facilities open for use by outsiders. Thus the campus has evolved into an open campus where outsiders and tourists can come to visit. Among the facilities are a picnic area, a nine-hole golf course, a go-kart circuit, a shooting and archery range, and an equestrian site.

UUM has a unique vision and mission. The vision is "To be An Eminent Management University" while its mission is to "Educate leaders with holistic characteristics to serve the global community". Besides, UUM is also well-known with an interesting tag line "University in a Green Forest". It shows the commitment of UUM in preserving the green environment as the main attraction for visitors and the paramount importance is for the group of communities inside UUM, for them to have the conducive and fresh atmosphere.

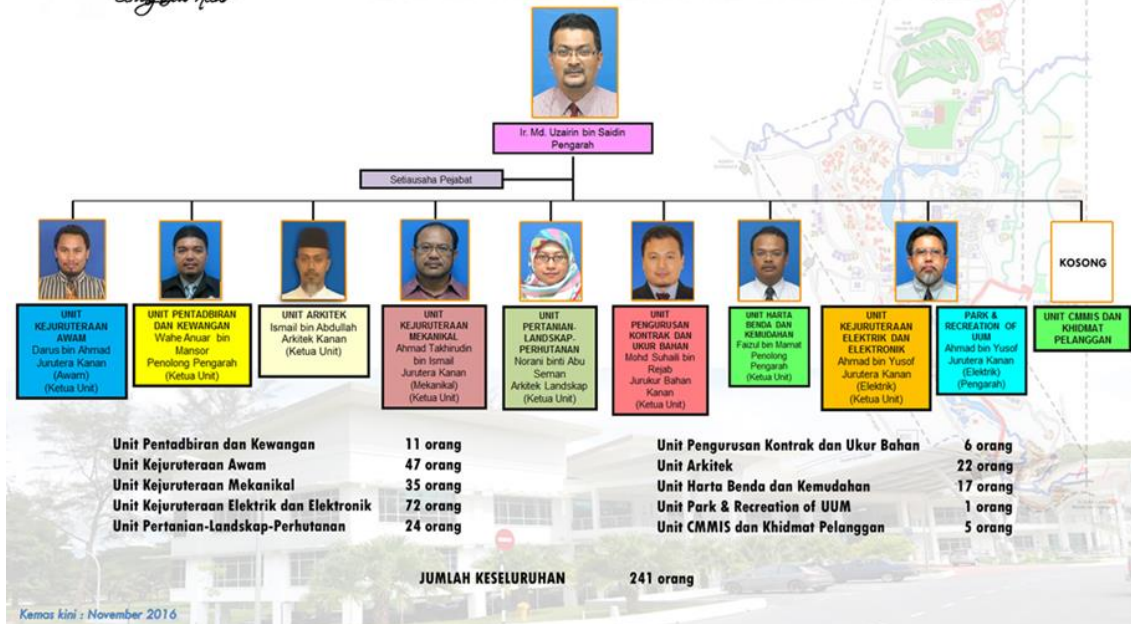
Figure 3 shows the organisation chart for UUM. Vice-Chancellor leads the operation management of the university. He is assisted by the University Management Committee, three Deputy Vice-Chancellors and directors from various departments. Bursar is one of the department which in charge of the financial matters of the university, including the accounting for living assets.



**Figure 3: The organization chart of UUM**

Living assets are operated by Jabatan Pembangunan dan Penyelenggaraan (JPP) UUM, which is parked under Deputy Vice Chancellor (Research and Innovation). JPP has played a role as a catalyst for the development of UUM. The department is responsible for the development and maintenance of facilities in UUM as well as providing recreational and tourism infrastructure and facilities around the campus, which includes the operation and maintenance of living assets in UUM such as deer, ostrich and ducks. The organization chart of JPP department is shown in Figure 4. The person responsible for the living assets is Puan Noraini binti Abu Seman, the head for Unit Pertanian Landskap – Perhutanan.

# CARTA ORGANISASI



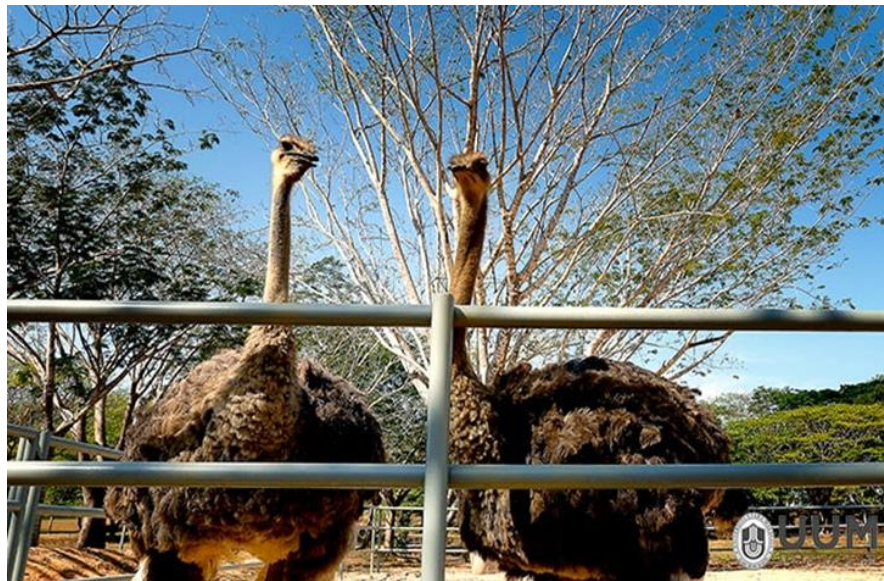
**Figure 4: The organization chart of JPP department**

## 1.2.1 THE UNIQUENESS OF UUM

By referring to the tag line of ‘University in Green Forest’, it is also interesting to highlight that UUM is also one of the top green universities in the world. According to the UI GreenMetric World University Ranking 2019, UUM was ranked 64th place and 2nd in Malaysia. It is not surprising given its location in the middle of the Sintok forest. “University in a Green Forest” not only offers the greenery scenery to be enjoyed but UUM also has an equine centre, deer, duck, ostrich, peacock, bird, durian trees, logs, and valuables/exotic plants.



**Figure 5: UUM Deer Park is a one-acre enclosure, and is home for deer from Timor (*Cervus Timorensis*) species.**



**Figure 6: In November 2013, six ostriches, two males and four females were kept in the UUM campus. The new ostrich aged two years and six months when it first arrived at the UUM is for meat breed.**



**Figure 7: Ducks at the pond**



**Figure 8: The UUM Equine Centre was established in 2008 is an outstanding facility for the horse-loving community. With 14 horses, the centre provides horse riding services, horse-drawn cart, and tram services for the campus tour.**

### **1.3 ACCOUNTING REPORTING FRAMEWORK FOR UUM**

Organisations and institutions in Malaysia are all required to prepare statutory financial statements. The financial reporting framework serves as a guideline to ensure that each needed criterion is fulfilled. The financial statements must be prepared in accordance with the approved accounting standards which have been set forth by the standard-setting bodies, such as the Malaysian Accounting Standards Board (MASB).

It is essential to understand the types of approved accounting standards that are recognised and

practised in Malaysia. There are three (3) types of approved accounting standards in Malaysia:

- i. The Malaysian Financial Reporting Standards (MFRS) – This is the MASB approved accounting standards for public listed entities, but this does not include private entities.
- ii. Malaysian Private Entities Reporting Standards (MPERS) – This replaces the previous PERS and is in effect from 1 January 2016. MPERS issued by MASB is a self-contained Standard that applies only to private entities.

iii. Malaysia Public Sector Accounting Standard (MPSAS) – This is the accounting standard that is to be applied in the preparation of general-purpose financial reports of public sector entities other than Government Business Enterprises (GBEs).

Currently, UUM prepares its financial statements in accordance to MPERS Standard. As previously mentioned, this Standard applies only to private entities. In February 2017, the MASB revised the Private Entity definition with the coming into operation of the Companies Act 2016 and Interest Schemes Act 2016, both on 31 January 2017. The revised definition shall be applied for the financial statements with annual periods ending on or after 31 January 2017. “Notice of Amendment to Private Entity Definition” is attached in Appendix I.

On the other hand, MPSAS was introduced in the year 2013 and made compulsory by the year 2020. For MPSAS, Accountant General’s Department (AGD) is responsible for issuing this Standard. Earlier, the basis for accounting in MPSAS is cash accounting. However, recently, the government has committed to switching its basis of accounting to accrual basis because of its benefit in providing a more comprehensive financial report to the public. It is expected that it will be fully implemented by the year 2021, as announced by the Ministry of Finance at that time, Mr Lim Guan Eng. Even though Mr Lim Guan Eng is no longer holding this post, the implementation towards accrual basis accounting is still on its pathway.

The AGD has been given the responsibility to be the main driver for the implementation of accrual accounting in the public sector, which includes developing the accounting policies and Standards. The AGD develops MPSASs which apply to the accrual basis of accounting and sets out requirements dealing with transactions and other events in the general purpose financial reports. Public sector entities include the Federal Government, State Governments and Local Governments unless otherwise stated. Over the past two decades, a growing number of government bodies have begun moving away from cash accounting toward accrual accounting.

*UUM has yet to apply MPSAS but very much near to it. Azri did not see much transition problems with other assets, such as property, plant and equipment (PPE) but he was still in a blurry vision of this ‘living asset’ or should he call ‘biological asset’? How*

*to account and report them in the financial statement? Azri is also wondering if there is any difference in the accounting treatment for living assets under MPERS and MPSAS.*

#### **1.4 BIOLOGICAL ASSETS / LIVING ASSETS**

Biological assets (generally known as ‘living asset’ in UUM) are a type of assets that have different characteristics compared to other assets such as building, land, equipment, etc. What makes these assets different are; they grow, procreate, produce and degenerate, such as plants and animals. Therefore, the accounting treatments for these kinds of assets are different and require a particular accounting standard to deal with the issue.

Generally, for public listed companies, MFRS 141 Agriculture applies to account for biological assets when the entity business involving agricultural activity. MFRS 141 Agriculture covers on definition, recognition, measurement and disclosure for the biological assets and agriculture produce. The MFRS 141 explains how to measure the biological assets and agriculture produce at initial recognition and the change in the value of the biological assets. This Standard also requires extensive disclosure requirement on biological assets and agricultural produce. The biological asset will be recognized when, and only when (Para 10), the entity controls the asset as a result of past events. The control generally refers to assets owned by the entity. This control increases the entity’s net assets and may contribute to the entity’s profitable future economic events as a reward.

Meanwhile, it also involves a risk that requires well maintenance of the biological assets and agriculture produce to prevent or reduce possibilities of losses. Second, when it is probable that future economic benefits associated with the asset will flow to the entity. The entity may earn income and generate cash from the profitability of future economic events. Third, when the fair value or cost of the asset can be measured reliably with proper transactions and adequate supporting documents.

A biological asset shall be measured at its fair value less cost to sell on initial recognition and at each reporting period (Para 12). The cost to sell is the cost that needs to be incurred to sell a product, for example, advertisement cost and brokerage or

dealer's commission. Para 26 describes that gain or loss is recognized when the biological assets are measured at fair value less cost to sell at initial recognition. This gain or loss is included in the profit or loss for the reporting period. Any change in the fair value less cost to sell of biological assets would generate gain or loss and would be reported in the profit or loss for the reporting period.

Based on the brief explanations of a biological asset, it is understood that biological asset has its specific treatment and Standard to identify, measure, recognize and disclose. As previously mentioned, this MFRS standard was set up for the public listed companies to focus on the entity's business activity involving agricultural activity. It may become proper guidance to help Azri having a good feel on how to record the UUM's biological assets using appropriate accounting standard. As advised by Dr Sitra and her team, Azri and his team have chosen the first group of the animal to start accruing, which is deer.

### **1.5 DEER (RUSA) FARMING IN UUM**

Initially, the deer in UUM, were bred from a male deer and ten female Breed *Cerbus Timorensis* deer since the year 1996. The Ministry of Tourism originally donated these deer under 6th Malaysian Plan. Under this initiative, the government encourages public universities in Malaysia to promote tourist activities on campus.

The deer are being taken care and feed up every day by the assigned JPP staffs. The deer eat grasses, seeds and fruits. The JPP staffs love the deer under their supervision.

*"There is one male deer called John. It will come to me whenever I call his name."*

Mr Ahmad, JPP staff

The deer also undergo regular health check by the staffs in charge and interval health check by Veterinary to ensure their healthiness and avoid sickness. The first batch of deer has grown up and become adults when they reach two years old. The female deer gave birth to baby deer, usually one or two at a time. The baby deer or fawn are then grown up and give birth to another fawn when they reach two years old. The cycle continues for several generations. By April 2019, the number of deer has increased from 10 to 163.





**Figure 9: Breed *Cerbus Timorensis* deer**

Deer are divided into three groups based on its purpose. The primary purpose of breeding deer in UUM is for recreational. Deer is one of the main attractions in UUM, besides ostrich. Deer breeding program is one of the activities that support the green campus status in UUM. It attracts tourists that come to UUM since the tourist can watch and feed the deer at no fee or charge. At the same time, another group of deer has been identified for breeding purpose. They are selected from high-quality deer so that they can produce a healthy and strong generation of deer. Usually, breeding deer are separated from other deer that are designated for tourist attraction.

Besides being used as a tourist attraction and breeding purpose, part of the deer can be slaughtered and sold with permission granted by a University committee and the Vice-Chancellor. It means that the deer is also available for sale, but the occasion is rare. However recently, due to the high demand and commercial value of deer in the market, UUM has decided to sell the deer through its subsidiary, Sintok Agro Sdn Bhd in the year 2018.

Usually, only adult deer can be sold. The price of the deer is varied, depend on age and weight. On average, a 2-year-old deer can be sold for RM2,000 at least. In the future, there is also a plan to carry out a deer breeding training program which will be offered

to the public and interested party at a specific price. These activities will generate income for UUM.

### 1.5.1 FINANCIAL REPORTING AND DISCLOSURE

According to Puan Noraini, JPP's landscape architect, timely reporting on the deer statistics is necessary and required by the Bursar Department UUM. The deer statistics report consists of gender, age, quantity and value per deer. JPP UUM prepares this report every six months, particularly before the financial year-end. The JPP staff keeps up to date records on the deer gender, age and quantity. This information is keyed-in and kept as Deer Statistics Report in the Microsoft Excel file in the computer. This report is timely supervised by the officer in charge. The JPP does conduct prompt audit and inspection on the deer quantity and condition as to keep up to date information on the deer statistics, which will be convenient for reporting purpose to the higher management.

#### *Initial recognition and subsequent measurement*

Since the first year of deer received from the Ministry of Tourism, the number of deer has increased every year. As of 31 December 2017, the number of deer was 108 under the species of *Cerbus Timorensis*. The information on the number of deer and its market value by age are presented in Table 1.

**Table 1: Market Value of Deer by Age (2017)**

<b>Age</b>	<b>No. of deer</b>	<b>Market value per deer (RM)</b>
12-year-old	4	5,000
10-year-old	2	5,000
8-year-old	8	4,000
7-year-old	6	3,800
5-year-old	6	3,500
4-year-old	1	3,000
3-year-old	7	2,800
2-year-old	21	2,000
1-year-old	25	1,200
Newborn	28	500
<b>Total</b>	<b>108</b>	

Some deer in the same age group has a different market price from the value given in Table 1. The market value of one of 5-year-old deer is RM5,000. Its market value is higher as this deer is used for breeding purpose. Two (2) of deer of aged 3-year-old have a market value of RM2,500 each, while in 2-year-old deer group, there are two (2) deer have a market value of RM1,800 and five (5) deer have a market value of RM1,500.

During 2018, 28 fawns were born. The market value for newborn fawn is RM800 each. In the same year, six (6) deer were slaughtered by the UMHSB Sdn Bhd (a subsidiary of UUM) for Eid feast. The carrying amount of the slaughtered deer at the beginning of the year 2018 is shown in Table 2.

**Table 2: Carrying amount of slaughtered deer in 2018**

Carrying amount (RM)	No. of deer
2,500	2
2,000	2
1,200	2

The statistics and market value of deer as of 31 December 2018 is shown in Table 3. The table excludes the slaughtered deer (6 deer) and includes the newborn fawn. The market price for each age group has increased slightly as compared to the previous year.

**Table 3: Market Value of Deer by Age (2018)**

Age	No. of deer	Market value per deer (RM)
13-year-old	4	4,000
11-year-old	2	4,000
9-year-old	8	4,000
8-year-old	6	4,000
6-year-old	6	4,000
5-year-old	1	4,000
4-year-old	5	3,000
3-year-old	19	2,500
2-year-old	23	2,000
1-year-old	28	1,500
Newborn	28	800
<b>Total</b>	<b>130</b>	

Three (3) out of 28 deer of aged 1-year-old have a market value of RM1,800.

### 1.5.1.1 Disclosure in Financial Statement

Currently, the financial statements of UUM are prepared in accordance with the MPERS reporting framework. The basis of accounting adopted by UUM is the historical cost convention with some exception for some items. The excerpt of UUM Statement of Financial Position of 2017 reports the following:

	<b>Group RM</b>	<b>UUM RM</b>
Assets:		
Property, Plant and Equipment	689,875,006	624,128,241
Investment Property	2,734,667	772,031
Construction in Progress	4,512,610	4,512,610
Investment in Subsidiary	-	20,000,000
Long-term Investment	6,633,688	6,633,688
Long-term Receivables	6,662,462	6,662,462
Goodwill	336,357	-
	<hr/> 710,754,790	<hr/> 662,709,032
Current Assets		
Inventories	448,490	-
Receivables	37,163,436	51,857,473
Current tax receivables	783,086	-
Fixed deposits	231,742,013	204,630,000
Cash and bank balances	13,912,028	9,654,824
	<hr/> 284,049,053	<hr/> 266,142,297
<b>Total Assets</b>	<b>994,803,843</b>	<b>928,851,329</b>

The statement shows that UUM did not disclose the information on biological assets on the face of Statement of Financial Position. Azri explained that UUM did not provide the information because the amount is small, which is immaterial to disclose. Based on internal records, the market value of deer as at 31 December 2017 was RM212,400. When comparing to the total assets of the UUM, the total value of deer is less than 1%.

### 1.5.1.2 Deer Valuation

The deer valuation mainly based on the weight and age of each deer. For each deer's value, JPP staff used the Veterinary Kedah Rusa Value Report, which comprises of standardized deer value following the deer's age. The Veterinary Kedah has deer

experts who have good knowledge of deer's conditions and well-being. Thus, JPP staff depends on Veterinary Kedah report for reasonable and independent assurance on the deer valuation price. Practically, the value of each deer is based on the predetermined value by age as prescribed in the Veterinary Kedah Rusa Value Report. In sum, the valuation of each deer is obtained from the amount classified by the age stated in the Veterinary Kedah report.

For actual valuation for each deer in UUM is done upon university management request where the JPP staff seeks professional assistance from Veterinary Kedah by inviting them to determine the valuation for each deer. Thus, only for exceptional cases, the Veterinary Kedah staff shall visit the university farm to conduct an assessment for each deer. Besides for valuation purpose, JPP also invites Veterinary Kedah experts for other purposes, for example, deer medical treatment and in some cases to determine the cause of the deer death. There is no fee involved for the services rendered by Veterinary Kedah as this is one of the government agencies.

#### *1.5.1.3 Inter-company Transfer*

UUM is a public institution with the principal activity focusing on education. UUM has the intention to commercialize some of the deer activities by channelling this activity to one of its wholly-owned subsidiary named Sintok Agro Sdn. Bhd. The Sintok Agro Sdn. Bhd. has a variety of agricultural facilities such as greenhouses and farms to plant ornamental flower plants offered for ceremonies, entertainment programs at offices, institutions and schools. Other services such as floristry, ornamental plants are also offered. Apart from agricultural activities, Sintok Agro Sdn. Bhd. also has a deer farm and offers deer meat for sale.

In the year 2018, with the approval of the UUM management, UUM transferred 100 deer (this figure has been excluded from Table 1 and 3) to Sintok Agro Sdn Bhd at zero (0) cost as to commercialize the deer activity. It is because Sintok Agro Sdn Bhd principal activity focusing on agriculture; thus, it should be an excellent start to expand the deer business operation. UUM has authorized the subsidiary company to breed and sell deer meat to other companies and the public with the possibility to enhance the group firm performance. As this intercompany transfer of deer incurred without any cost, no transactions have been recorded in the company or group accounts. However,

the deer transfer report has been prepared by the JPP staff as evidence for the transfer of deer took place from UUM to Sintok Agro Sdn Bhd. The details of the deer transfer report are as follows:

**Table 4: Deer Intercompany Transfer**

No	Age	Quantity	Value per Deer (Approximate)	Total
			RM	RM
1	2	50	800	40,000
2	3	16	1,800	28,800
3	4	2	2,200	4,400
4	5	7	2,500	17,500
5	6	5	2,800	14,000
6	7	1	3,000	3,000
7	9	6	4,000	24,000
8	10	8	4,000	32,000
9	12	1	4,000	4,000
10	14	4	4,200	16,800
	<b>Total</b>	<b>100</b>		<b>184,500</b>

However, due to some operational issues, on 12 May 2019 with the management approval the 100 deer have been transferred back to UUM under JPP's care and custody. As this is an unusual case, the JPP has invited the Veterinary Kedah to conduct inspections and valuation for each of these 100 deer. The 100 deer have been combined with other 163 deer that would make up a total of 263 deer at the deer farm under the control and management of JPP UUM.

## **1.6 CONCLUDING REMARKS**

As the person who's held responsible to accurately recognize, measure and disclose the value of biological assets according to the appropriate accounting standard, Azri is now wondering whether or not to change the use of the current accounting standard. If the changes should take place, he has to choose the right type of accounting reporting framework that should be applied by UUM, then decide on how to start implementing the new accounting treatment for biological assets in UUM. Dr Sitra and the team are happy to help Azri to get clear on this matter, which indirectly will contribute to UUM as a whole. Dr Sitra and the team shall work together focusing on the issues raised by Azri.

For this case, students are required to have the following reading materials for discussion:

- (i) MFRS 141 - The Malaysian Financial Reporting Standards (MFRS)
- (ii) MPERS 34 - Malaysian Private Entities Reporting Standards (MPERS)
- (iii) MPSAS 27 - Malaysia Public Sector Accounting Standard (MPSAS)
- (iv) MPERS Section 33 - Related Party Disclosures; and
- (v) MFRS 124 - Related Party Disclosures.

# TEACHING NOTES

## 2.1 TEACHING CASE SYNOPSIS

This case provides a study on agriculture activity by Universiti Utara Malaysia (UUM). The purpose of this case is to create greater awareness for students on both the accounting framework and methods recommended for specific assets in agriculture activity, i.e. biological assets. The use of standard measurement of other non-current assets such as property, plant and equipment is not relevant for biological assets, as this type of asset has different characteristics and purposes in business. This case provides students with experience in explaining the nature of an organization's agriculture activities and accounting for biological assets as recommended in the Malaysian accounting framework. In addition, students are also exposed to the current issue in accounting standards, such as public interest and ethical issue. In this case, Mr Azri, an accountant at UUM and also a leader for asset unit was responsible for reporting the value of all assets in UUM, including 'living assets' or 'biological asset'. Recently, he was instructed to accurately recognize, measure and disclose the value of 'biological assets' according to appropriate accounting standard. Furthermore, UUM is urged to replace the existing accounting standard of the Malaysian Private Entity Reporting Standard (MPERS) to the Malaysia Public Sector Accounting Standard (MPSAS). Mr Azri is now considering whether to change the use of the current accounting Standard and how to account and report for biological assets according to the new accounting Standard. This case is a decision or "unfinished" case which is suitable for Financial Accounting and Reporting courses.

**Keywords:** Biological assets, public universities, agricultural activities, financial reporting

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## 2.2 LEARNING OBJECTIVES

- I. To identify the relevant accounting standard in recognizing, measuring, reporting and disclosing biological assets by public universities in Malaysia.
- II. To apply the appropriate accounting treatment in recognizing, measuring, reporting and disclosing biological assets in accordance with the appropriate accounting standard by public universities in Malaysia.



- III. To understand the ethical issues involving unrecorded transactions in the company's or group accounts for the intercompany transfer between the parent and its wholly-owned subsidiary.
- IV. To gain knowledge on how the proposed accounting standard would serve or add value to the public interest.

### 2.3 LEVEL OF TEACHING CASE DIFFICULTY

This course has a medium to a high level of difficulty in solving the decisions.

### 2.4 IDENTIFIED COURSES WHERE THE TEACHING CASE CAN BE USED

Course(s) where the case can be applied are:

- (i) BKAR 2023 Financial Accounting and Reporting II
- (ii) BKAR 3043 Financial Accounting and Reporting IV
- (iii) BKAR 3063 Specialised Financial Accounting
- (iv) BKAL 3063 Integrated Case Study

### 2.5 CASE TEACHING PLAN

i)	Give the case in advance to the students before the class. For example, two weeks earlier. Students are asked to read the Case, discuss and prepare the materials for the presentation.	
ii)	Selected group/students are required to explain the case in class.	20 minutes
iii)	Selected group/students are asked to highlight the issues in the case	20 minutes
iv)	To conduct a group presentation to answer the relevant questions in the Case.	60 minutes
v)	Open for Q&A session	10 minutes
vi)	Instructor conclude the Case	10 minutes

\*Notes: The time planned is only suggestion. It's up to the lecturers to decide on time planning.

**CASE TEACHING PLAN (the instructor's supplement to the case preparation chart)**

<b>Question</b>	<b>Student</b>	<b>Instructor</b>
<p><b>Question 1:</b> Appropriate accounting framework for agriculture activity</p>	<p>Students should discuss the scope and applicability of MFRS141, MPERS 34 and MPSAS 27 to different types of entity.</p>	<p>Observe whether students can identify the appropriate accounting standard to be applied by UUM as a public university in preparing their financial statements.</p>
<p><b>Question 2:</b> Definition of agriculture activity</p>	<p>Students should discuss the scope and definition of agriculture activity as stated in the accounting standards</p>	<p>Observe whether students can apply the theoretical to accounting practice in defining the deer activity as agriculture activity.</p>
<p><b>Question 3:</b> Definition and recognition criteria of a biological asset</p>	<p>Students should discuss the definition and recognition criteria of a biological asset, as stated in the accounting standards and its application in this case.</p>	<p>Observe whether students can apply the theoretical to accounting practice in defining and determining recognition criteria for the deer activity.</p>
<p><b>Question 4:</b> Initial and subsequent measurement for biological assets</p>	<p>The student should apply the relevant paragraph in the appropriate accounting standard to record the biological assets at initial and at year-end.</p>	<p>To observe the calculation made and the journal entries prepared by the students.</p>
<p><b>Question 5:</b></p>		<p>To observe the appropriateness of the</p>

Presentation of biological assets in financial statement	Students should illustrate the presentation of biological assets in financial statement	illustration of the biological assets in financial statement
<p><b>Question 6:</b></p> <p>The appropriateness of the deer valuation method</p>	<p>Students should discuss the (1) validity of the predetermined deer value report, whether it has been prepared based on market condition or other relevant data to determine deer valuation. No doubt that the Veterinary Kedah staff have sufficient knowledge on the deer well-being, (2) how about Veterinary Kedah staff knowledge on the market condition or the price assumption determined by the market participants from the orderly transaction during the measurement date of the deer fair value? (3) on the appropriateness of JPP staff to depend on predetermined deer value without inviting the Veterinary Kedah staff for physical inspection for the valuation purpose).</p>	<p>To observe for the appropriateness of the answers given by the students and allow for open discussion among the students to enhance their critical thinking skills.</p>
<p><b>Question 7:</b></p> <p>The ethical issues involving the intercompany transfer at zero cost between the parent and its wholly-owned subsidiary.</p>	<p>Students should elaborate on ethical issues involving the intercompany did not disclose the related party transaction in the financial statements that could mislead the users of financial statement opinion.</p>	<p>To encourage open discussion among the students on this matter as to enhance their critical thinking skills.</p>

<p><b>Question 8:</b></p> <p>The chosen accounting standards as above would serve or add value to the public interest.</p>	<p>Students should provide a rational answer on accounting standards in serving the public interest.</p>	<p>This is a lifelong learning question for students where and it gives room for a brainstorming session in the class.</p>
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## 2.6 TEACHING SUGGESTIONS

The instructor requires to cover the relevant topics of the subject before giving the case to the students.

### *Example 1:*

To cover the Biological Asset topic in Financial Accounting and Reporting II, in order to discuss Question 1-6.

### *Example 2:*

To cover the Related Party Disclosure topic in Financial Accounting and Reporting IV, to discuss Question 7.

### *Example 3:*

All the questions in the case are suitable for the Integrated Case Study course except Question 7.

## 2.7 CLASS TESTED EVIDENCE

This case study has been run and tested in discussing 'Biological Assets' topic in the Financial Accounting and Reporting II (BKAR2023) course during Semester 1 (2019/2020 Session) at Tunku Puteri Intan Safinaz School of Accountancy (TISSA-UUM). Students are required to read the case study and answer Question 1 until 6 in a group. Then, students are required to present the answers verbally and in writing.

Overall, the students have no problem in understanding the information provided in the teaching case. Thus, it shows that the teaching case is clear and well written with adequate information for them to make decisions. Students are also able to provide similar answers as suggested in the teaching note for calculation questions, and offer a variety of perspectives

and answer for discussion questions. This case narrative is acceptable because it shows that the students can argue and think critically. It also indicates that the teaching case has the right combination of closed-ended questions that able to check students' technical knowledge and open-ended question that stimulate discussion. Overall, the students and the lecturer are satisfied when using this case study because it has helped them to achieve the learning objective of the topic.

As a result, an improvement has been made to the teaching note. The document has been refined to include other possible answers as offered by the students during the discussion.

## **2.8 TEACHING CASE DISCUSSION QUESTIONS AND SUGGESTED ANSWERS**

### **Question 1:**

**Discuss in general the appropriate reporting framework (accounting standard) that UUM should apply. *Appendix I is attached as additional reading material.***

Universiti Utara Malaysia (UUM) is one of the public universities in Malaysia. It is classified as a public sector entity. Thus it is different from a public listed entity and private entity. Therefore, the accounting standard that is to be applied in the preparation of general-purpose financial reports of public sector entities is Malaysia Public Sector Accounting Standard (MPSAS). However, in earlier years, there is no specific accounting standard for public sector entity. The MPSAS has only been introduced in the year 2013 and made compulsory by the year 2020 and is expected to be fully implemented in the year 2021.

However, for current and previous practice, the financial statements of UUM have been prepared in accordance with Malaysian Private Entities Reporting Standards (MPERS). MPERS is considered as more practical accounting standards to be applied by a public entity as compared to MFRS because it requires less regulation and monitoring, unlike the public listed companies. The issue is, MPERS issued by MASB is a self-contained Standard that applies only to private entities (the definition of private entity can be discussed from the Appendix I "Notice of Amendment to Private Entity Definition" attached). However, it has made compulsory by the year 2020, UUM should start to apply MPSAS to prepare its financial statements. (Students can also justify if they are in the opinion that UUM should continue with MPERS).

**Question 2:**

**Does the deer activity in UUM meet the definition of agricultural activity as specified in the appropriate accounting standard above? Justify your answer.**

According to MFRS 141, MPSAS 27 and MPERS Section 34, an agriculture activity is defined as the management of the biological transformation and harvest of biological assets for sale or for conversion into agriculture produce or additional biological assets.

Thus, based on the definition above, it seems like the deer activity fulfil the definition of agriculture activity since UUM manage its biological transformation since childbirth until adult. Then, the additional biological asset is produced with the birth of fawn and are breed and grown until it becomes adult. However, UUM has three (3) different purposes of deer: breeding, recreational and sale. Therefore, UUM needs to identify or classify which deer will be used for breeding purposes, or attraction purposes, or slaughter or sale purposes for the purpose of recognition and recording of biological assets in its account. Proper classification is important because it will determine the valuation method and the presentation that is suitable for deer in the financial statement of UUM.

**Question 3:**

**Does the deer fulfil the definition and recognition criteria of biological assets in accordance with the appropriate accounting standard? Discuss your answer.**

According to MFRS 141, MPSAS 27 and MPERS Section 34, biological asset is defined as a living animal or plant. In this case, deer is a living animal. Therefore, it fulfils the definition of a biological asset.

According to MFRS 141, MPSAS 27 and MPERS Section 34, the recognition criteria for an agricultural activity are similar, which are:

- 1) the entity controls the biological asset as a result of past event,
- 2) it is probable that future economic benefits will flow into the entity, and
- 3) the fair value or cost of the biological asset can be determined reliably.

UUM has control over all deer as a result of the donation made by the Ministry of Tourism to UUM in the year 1996. Ever since UUM has control over the ownership and the benefits from the deer, thus, it fulfils the 1st recognition criteria.

It is argued that the deer activities that are used for attraction may bring economic benefit to UUM indirectly because it attracts tourist to come to UUM. The increasing number of tourists will help to boost UUM revenue because the tourist will spend time and money at shops in UUM. It also helps to improve UUM's ranking in environment ranking. It encourages students to come and learn at UUM, consequently increase revenue for UUM through tuition fee and accommodation fee. Similarly, for deer that is used for breeding purpose. This group of deer is grown to breed more deer, which will be used for sale or attraction. Therefore, it does not generate income directly. Although the deer that are used for attraction and breeding may bring indirect economic benefit to UUM, it can be argued that the economic benefit generated is not highly probable from this group of deer because there is an uncertainty of revenue generation. It only assists the UUM in its operation to generate revenue. Therefore, it can be argued that this group of deer does not fulfil the 2nd recognition criteria of biological assets. However, if the probability of generating revenue from attraction and breeding activities is proven to be high and certain, then these two groups of deer can fulfil the 2nd recognition criteria.

However, deer that are grown for selling meets the recognition criteria for agriculture activity. It is because UUM can generate cash flow directly from selling the deer. The selling activity of deer is a direct revenue-generating activity for UUM. Adult deer are sold for approximately between RM2,000 to RM5,000. UUM also sell living deer for breeding purpose to other entities. These selling activities do bring probable future economic benefit to UUM. Therefore, deer that are designated for sale seems to fulfil the 2nd recognition criteria of agricultural activity.

Besides, the cost and fair value of the deer can also be determined regularly based on the valuation made by the veterinary. The fair value is determined based on age, size and weight of the deer. Therefore, it fulfils the 3rd recognition criteria.

In conclusion, the deer that is grown for the purpose of selling do fulfil all the three recognition criteria of biological assets. Therefore, this group of deer shall be recognized as biological assets. However, the deer for the purpose of attraction and breeding does not fulfil the recognition criteria of a biological asset. Therefore, this group of deer should not be recognized as biological asset.

**Question 4:**

**With reference to the appropriate accounting standard, how would UUM account the value of the biological assets for the initial and subsequent measurement for the year 2018? Prepare the related journal entries. Assume that the cost to sell to be zero.**

**2018**

		Debit (RM)	Credit (RM)
New-born fawn	Dr Biological assets	22,400	
(refer to Table 3)	Cr Fair value gain		22,400
	(28 x RM800)		
31 Dec 2018	Dr Biological assets	58,400	
	Cr Fair value gain*		58,400
	*Changes in fair value (excluding slaughtered deer)		
	13-year-old = (4,000 – 5,000) x 4 deer = (4,000)		
	11-year-old = (4,000 – 5,000) x 2 deer = (2,000)		
	9-year-old = (4,000 – 4,000) x 8 deer = 0		
	8-year-old = (4,000 – 3,800) x 6 deer = 1,200		
	6-year-old = (4,000 – 3,500) x 5 deer = 2,500 (4,000 – 5,000) x 1 deer = (1,000)		
	5-year-old = (4,000 – 3,000) x 1 deer = 1,000		
	4-year-old = (3,000 – 2,800) x 5 deer = 1,000		
	3-year-old = (2,500 – 1,800) x 2 deer = 1,400 (2,500 – 1,500) x 5 deer = 5,000 (2,500 – 2,000) x 12 deer = 6,000		
	2-year-old = (2,000 – 1,200) x 23 deer = 18,400		
	1-year-old = (1,500 – 500) x 25 deer = 25,000 (1,800 – 500) x 3 deer = 3,900		
	Total = 58,400		

**OR**



<b>Year 2017</b>	<b>No. of deer</b>	<b>Market value per deer (RM)</b>	<b>Total market value (RM)</b>
<b>Age</b>			
12-year-old	4	5,000	20,000
10-year-old	2	5,000	10,000
8-year-old	8	4,000	32,000
7-year-old	6	3,800	22,800
5-year-old	5	3,500	17,500
	1	5,000	5,000
4-year-old	1	3,000	3,000
3-year-old	5	2,800	14,000
	2	2,500	5,000
2-year-old	14	2,000	28,000
	2	1,800	3,600
	5	1,500	7,500
1-year-old	25	1,200	30,000
New born	28	500	14,000
<b>Total</b>	<b>108</b>		<b>212,400</b>
<b>Year 2018</b>	<b>No. of deer</b>	<b>Market value per deer (RM)</b>	<b>Total market value (RM)</b>
<b>Age</b>			
13-year-old	4	4,000	16,000
11-year-old	2	4,000	8,000
9-year-old	8	4,000	32,000
8-year-old	6	4,000	24,000
6-year-old	6	4,000	24,000
5-year-old	1	4,000	4,000
4-year-old	5	3,000	15,000
3-year-old	19	2,500	47,500
2-year-old	23	2,000	46,000
1-year-old	25	1,500	37,500
	3	1,800	5,400
<b>Total</b>	<b>102</b>		<b>259,400</b>

Carrying amount of slaughtered deer	= (2,500x2) + (2,000 x 2) + (1,200 x 2)
	= 11,400
Beginning fair value without slaughtered deer	= 212,400 – 11,400
	= 201,000
Changes in fair value (2018)	= 259,400 – 201,000
	= 58,400

**Or**

Carrying amount of slaughtered deer	= (2,500x2) + (2,000 x 2) + (1,200 x 2)
	= 11,400
Ending fair value including slaughtered deer	= 259,400 + 11,400
	= 270,800
Beginning fair value	= 212,400
Changes in fair value (2018)	= Ending FV – Beginning FV
	= 270,800-212,400
	= 58,400

**Question 5:**

**How should the information on biological assets be presented in the financial statement in accordance with the appropriate standard for the year 2018?**

The MPSAS 27, MFRS 141 and MPERS requires an entity to disclose the 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 assets. An entity shall provide a description of each group of biological assets.

The information on reconciliation of the biological assets includes:

- a) the gain or loss arising from changes in fair value less costs to sell;
- b) increases due to purchases;
- c) decreases attributable to sales and biological assets classified as held for sale
- d) decreases due to harvest;
- e) increases resulting from business combinations;

- f) net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and
- g) other changes.

The information on biological assets should be presented as follows in financial statements:

**Notes to the financial statements**

**1. Accounting policy**

*Livestock*

Livestock (deer) are measured at their fair value less costs to sell. The fair value of livestock is determined based on Veterinary Kedah Rusa Value Report, which comprises of standardized deer value in accordance with the deer’s age.

**2. Biological Assets**

<b>Reconciliation of Carrying Amounts of Deer Livestock</b>	<b>2018 (RM)</b>
At 1 January 2018	212,400
Increases (newborn)	22,400
Fair value changes	58,400
Decreases (slaughtered)	(11,400)
<b>At 31 December 2018</b>	<b>281,800</b>

**Question 6:**

**Discuss the appropriateness of the deer valuation method used to determine the deer value for the Deer Statistics Report.**

The students are expected to give their opinion on the appropriateness of the deer valuation method. The reason for this is that an inappropriate valuation method likely to influence the deer value. This may mislead the management decision making on deer matters, particularly on the overall deer value. The staff in charge derived each deer value from the predetermined deer value stated in the Veterinary Kedah Rusa Value Report without any physical inspection from the deer experts. The predetermined deer value is the standardized value prepared by Veterinary Kedah staff in accordance with the deer’s age. This raised question whether this deer value determined without inspection is suitable or appropriate for the valuation of 163 deer?

There could be a contentious issue on the quality of the Veterinary Kedah Rusa Value Report in terms of method of valuation (valuation technique) on whether the market condition has been taken into consideration to determine the fair value amount. The fair value is the price computed either using observable inputs (e.g. market data) or unobservable inputs (e.g. entity own relevant data computed using valuation techniques) that would be received when the asset, e.g. deer is sold from an orderly transaction between the market participants e.g. potential buyer or seller at the measurement date for the valuation. Practically, the deer valuation is conducted for a specific period of time by a professional deer appraiser (e.g. market expert) as this expert shall estimate a reasonable deer value by considering the deer's well-being and market condition (e.g. market participants' assumptions on deer price). If there is no market data (e.g., information from an expert) available, the entity may alternatively use their own data for the valuation technique computation to determine the deer valuation. This alternative method should be only used when there is limited market data available for the deer valuation as the computation conducted using own data instead of the market data. (Students opinions with well-justified answers are acceptable).

**Question 7:**

**Discuss the ethical issues involving the intercompany transfer at zero cost between the parent and its wholly-owned subsidiary without taken into the companies or group accounts.**

The students are required to discuss the ethical issues for the transfer of deer that had not been recorded in the accounts of the parent company (including the group accounts). Basically, transactions are evidence of business activities that affects the performance and financial positions of the company. In general, the 100 deer were transferred from the parent company to subsidiary company would consider as part of business activities that account for intercompany transactions. Basically, the intercompany transfer has occurred without any record in the accounts as no cost is charged by the parent company to the subsidiary company. The transfer report shows a total approximate value of RM184,500 and this business activity was not recorded in the accounts of both companies. Theoretically, omitting business transactions are possible to raise ethical issues that will mislead the financial statements users' judgement over the performance and position of the company. Practically, the unaccounted transfer with the value of RM184,500 would possible to give impact to the truth and fairness of the financial statements of the parent company including the group financial statements unless the details of the 100 deer transferred are well explained in the notes to financial statements.

Furthermore, this intercompany transfer of 100 deer is considered as a related party transaction between parent and subsidiary companies. The related party relationship exist when the entity has control in the company (parent has control in subsidiary, e.g. UUM has control in Sintok Agro Sdn. Bhd.) in accordance with MPERS Section 33 *Related Party Disclosures* and MFRS 124 *Related Party Disclosures*. Further, these two standards (MPERS Section 33 *Related Party Disclosures* and MFRS 124 *Related Party Disclosures*) states that an entity's financial statements should contain the disclosures which are necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. The disclosure of the transfer of 100 deer in the notes to the financial statements would make the intercompany transfer more transparent. The disclosure of the intercompany transfer of 100 deer in the notes to financial statements reveals on the ethical behavior of the entity's management by conforming to the accounting standards (e.g. MFRS 124 & MPERS Section 33) and discharging their stewardship responsibility in safeguarding the assets of the entity as to protect the firm and shareholder value. This would reduce any ethical issues due to the existence of inherent risk in the intercompany transfer that possibly favors any of the related parties which raise questions on the stewardship of the entity management to the shareholders. However, the transfer of 100 deer requires approval from the members of the board with a proper advice from the auditors for the transfer of deer and extent of disclosure in the notes to financial statement in compliance with the accounting standards. (Students opinions with well-justified answers are acceptable).

**Question 8:**

**The accounting standard is a financial reporting framework that guides the business transactions or events in terms of recognition, measurement, presentation and disclosure. How would the chosen accounting standards as above serve or add value to the public interest? Appendix II is attached as additional reading material.**

This challenging question on public interest requires students to explain how the chosen accounting standards contribute to the public interest. Basically, the firms depend on accounting standards to prepare financial statements. The harmonization of these standards globally is essential for business today due to corporates trend towards internationalization. It is believed that besides the business, the accounting standards also need to add value to the public interest. As the public also contributes to country economic development, thus, accounting standards require to address the need of the public, for example, on fair pricing of the value of goods. Assuming the students have

chosen MFRS 141 *Agriculture*, in accordance to Para 13 MFRS 141, agriculture produce are harvested from the biological assets shall be measured at fair value less costs to sell at the point of harvest. This agriculture produce will be transformed into inventory and sold to other companies and finally to the public. Agriculture produce potentially has adequate measurement to determine its fair value. This would be one of the possible ways that the accounting standards serve the public interest by initialization a reasonable value based on fair value measurement to determine the value of the agriculture produce which may directly or indirectly be sold to the public in future. The fair value less costs to sell measurement prescribed in the accounting standards is possible to contribute as a base for a reasonable price set initially for the overall goods price of the item sold to public in future. Thus, the appropriate valuation method believed to contribute to the fair pricing of goods in future. This fair value measurement in biological assets/ agriculture produces in accounting standards is considered to serve or add value to the public interest. (Students opinions with well-justified answers are acceptable).

**Suggested additional reading / data gathering**

For this case students are required to have the following reading materials for discussion:

- (vi) MFRS 141 - The Malaysian Financial Reporting Standards (MFRS)
- (vii) MPERS Section 34 - Malaysian Private Entities Reporting Standards (MPERS)
- (viii) MPSAS 27 - Malaysia Public Sector Accounting Standard (MPSAS)
- (ix) MPERS Section 33 - Related Party Disclosures; and
- (x) MFRS 124 - Related Party Disclosures.

Students also are expected to read the Appendix I and Appendix II attached with the Case.

**2.9 LEADING CASE DISCUSSION QUESTIONS**

Question 1 – 5

## **2.10 IDENTIFICATION OF THE RELEVANT THEORIES/CONCEPTS SUPPORTING THE CASE'S CENTRAL ISSUE(S)/DECISION(S).**

This case study can apply the financial accounting and reporting framework, as discussed in the Conceptual Framework of Financial Reporting (IFRS Foundation, 2018). This framework is applicable in explaining any accounting issues.

## REFERENCES

- IFRS Foundation (2018). *Conceptual Framework for Financial Reporting*. Retrieved from <http://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>
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# RESEARCH OUTCOMES

## TEACHING CASE- PROCEEDING PAPER

*Proceedings of the International Case Study Conference  
24-26 Nov. 2019, Sabah, Malaysia*

### **From Fawn to Deer: Measurement of a Biological Asset**

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#### **TEACHING CASE SYNOPSIS**

This case provides a study on agriculture activity by Universiti Utara Malaysia. The purpose of this case is to create greater awareness for students on both the accounting framework and methods recommended for specific assets in agriculture activity, i.e. biological assets. The use of standard measurement of other assets is not relevant, as this type of asset has different characteristics and purposes in business. This case provides students with an experience in explaining the nature of an organization's agriculture activities and accounting for biological assets as recommended in the Malaysian accounting framework. In addition, students are also exposed to the current issue in accounting standard, such as public interest and ethical issue. In this case, Mr. Azri, an accountant at UUM and also a leader for asset unit was responsible to report the value of all assets in UUM, including 'living assets' or 'biological asset'. Recently, he was instructed to properly recognize, measure and disclose the value of 'biological assets' according to appropriate accounting standard. Mr. Azri is now considering whether to change the use of the current Standard, decide on what type of accounting reporting framework should be applied by UUM and how to start implement the new Standard. This is a decision/ "unfinished" case. This case is suitable for Financial Accounting and Reporting courses.

**Keywords:** Biological assets, public universities, agricultural activities, financial reporting

#### **1.0 INTRODUCTION**

Every morning Azri uses the same path heading to his office in Universiti Utara Malaysia (UUM). Every time he enters the UUM's entrance, the green scenery and the fresh air of UUM's tropical lush never fail to impress him. The ambience of UUM is so peaceful and calm. UUM is known as the 'university in a green forest' and it is watered by two rivers that flow along the middle of the campus. Azri pulled his deepest breath. "Fresh!" he whispered.

Moving around the campus, he can see the ostrich, horse, peacock, duck, deer and many more animals that become the main attraction to those who come to UUM. As long as he can remember, these animals are reported as living assets or 'aset hidup'. Azri, is the UUM's accountant at Bursar Department and he started to particularly review these assets after he had been transferred to the Asset Unit as a leader. Not only 'living assets', this unit was also made

responsible to in charge the entire assets in UUM. In terms of reporting, the task of his unit is to prepare the financial report of UUM's assets – the types and its value; and this including the 'living assets'. Suddenly, his tranquillity was disturbed. He remembered the order came by the UUM's Bursar last week, to properly recognize, measure and disclose the value of 'living assets' according to appropriate accounting standard. All this while, UUM was using Malaysian Private Entities Reporting Standards (MPERS) in reporting and preparing the UUM's financial statements, but Malaysia Public Sector Accounting Standard (MPSAS) has been urged to be used to replace MPERS in reporting and preparing the UUM's financial statements. He was thinking on whether to change the use of the current Standard and how to start implement the new Standard.

Last few days when he attended the meeting at TISSA-UUM building, he coincidentally met with one of financial accounting lecturers, Dr Sitra. They had a small conversation about his job scope. Dr Sitra also impressed when she knew that Azri is the officer who in charge the reporting of the 'living assets' in UUM. But when Dr Sitra told him that these assets are called as "biological assets", he had no clue. "Biological assets?" he raised his eyebrows. Dr Sitra continued asking him on how these assets are managed, measured, recognized and disclosed, he left speechless for a few seconds. Then he replied - *"Based on the previous practice, these assets will be expensed in the current year of acquisition and not capitalized"*. Dr Sitra asked why the assets aren't capitalized and Zulkifili remained in silence. However, the conversation made him wondering – "These animals and plants, they are not static as they are growing and increase in quantity. So, logically to expense these assets are misled in terms of representing its value which do not reflect the value of total assets of UUM". He was thinking that this is the right time for his unit to start accruing the biological assets value in accordance to appropriate accounting standard as proposed by the Bursar last week. The sense of urgency has now become more intense.

Besides attending workshop to comprehend the accounting treatment of these assets, Azri believed that Dr Sitra would able to help him for the initial start of recording the biological asset according to the relevant accounting standard. Dr Sitra and her colleagues agreed to help Azri as this is the interesting platform for the financial accounting lecturers to apply what they have taught to students in class. It was advised that Azri and his team to start with one group of 'living asset' first. Therefore, Azri chose 'deer' (rusa) as the first target group of animal to record the value according to the suitable accounting Standard. The reason to choose deer as the first group of animal to record is because the campus rears almost 200 deer. It is believed to be the major population of the living animal in campus. However, beforehand it is important to understand the concept of 'Biological Assets' from the accounting view. Dr Sitra and the team have explained to Azri in brief regarding the biological assets and the accounting treatment practiced by public listed companies (PLC) in Malaysia. However, Azri is now wondering what type of accounting reporting framework to be applied by UUM in recording this 'living' asset?

## **2.0 BACKGROUND OF THE CASE ORGANISATION/COMPANY**

Universiti Utara Malaysia (UUM) is one of the public universities in Malaysia. A public university is a university that is publicly owned or receives significant public funds from government, as opposed to a private university. In Malaysia, it is overseen by the Ministry of Education (Kementerian Pendidikan). The main legislation governing education is the Education Act 1996. There are a number of public universities established in Malaysia, which are funded by the government but governed as self-managed institutions. The classification of tertiary education in Malaysia is organised upon the Malaysian Qualifications Framework (MQF) which seeks to set up a unified system of post-secondary qualifications offered on a national basis in the vocational and higher education sectors. From 2004 to 2013, the government formed the Ministry of Higher Education to oversee tertiary education in Malaysia.

UUM was built on an area of 1,061 hectares in Sintok (in the district of Kubang Pasu). The permanent UUM campus, referred to as the Sintok Campus, began operations on 15 September 1990. In a former tin mining area, it is in a valley of lush tropical forests, embraced by blue hills, and watered by two rivers that flow along the middle of the campus. The rivers are Sungai Sintok and Sungai Badak. The Sintok Campus which was opened on 17 February 2004 by the Royal Chancellor, His Royal Highness Sultan Abdul Halim Mu'adzam Shah valued more than RM580 million. The main buildings are the Sultanah Bahiyah Library, the Chancellery, the Sultan Badlishah Mosque, the Mu'adzam Shah Hall, the Tan Sri Othman Hall, the Sports Complex, the Varsity Mall, the Budi Siswa building, the Convention Complex, and the buildings of the academic colleges. The campus is 48 km north of Alor Setar and 10 km south of the Bukit Kayu Hitam and is near the Malaysia-Thailand border. Other nearest towns are Jitra and Changlun.

Due to its vast land area, the university has used 107 hectares of forest to develop facilities open for use by outsiders. Thus the campus has evolved into an open campus where outsiders and tourists can come to visit. Among the facilities are a picnic area, a nine-hole golf course, a go-kart circuit, a shooting and archery range, and an equestrian site.

UUM has its own unique of vision and mission. The vision is “To be An Eminent Management University” while its mission is to “Educate leaders with holistic characteristics to serve the global community”. In addition, UUM also known with an interesting tag line “University in a Green Forest”. It shows the commitment of UUM in preserving the green environment as the main attraction for visitors and the paramount importance is for the group of communities inside UUM, for them to have the conducive and fresh environment.



Figure 1: UUM – University in a green forest

## 2.1 THE UNIQUENESS OF UUM

By referring to the tag line of ‘green forest’, it is also interesting to highlight that UUM is also one of the top green universities in the world. According to the UI GreenMetric World University Ranking 2018, UUM is ranked 76th place, and 2nd in Malaysia. This is not something surprising given its location in the middle of the Sintok forest. “University in a

Green Forest” not only offer the greenery scenery to be enjoyed but UUM also has equine center, deer, duck, ostrich, peacock, bird, durian trees, logs, valuables/exotic plants and also other assets that are not static but enlarge and grow over time.



Figure 2: UUM Deer Park is one acre enclosure, and is home more than 70 deer from Timor (*Cervus Timorensis*) species.



Figure 3: In November 2013, six ostriches, two males and four females were kept in the UUM campus. The new ostrich aged 2 years and 6 months when it first arrived at the UUM is for meat breed.



Figure 4: Ducks and pond



Figure 5: The UUM Equine Centre was established in 2008 is an outstanding facility for horse-loving community. With 14 horses, the centre provides horse riding services, horse-drawn cart, and a tram services for campus tour.

These living assets are parked under Jabatan Pembangunan dan Penyelenggaraan (JPP) UUM for maintenance and preserving. JPP has played a role as a catalyst for the development of UUM. The department is responsible for the development and maintenance of facilities in UUM as well as providing recreational and tourism infrastructure and facilities around the campus. The organization chart of this department is as follows:

# CARTA ORGANISASI

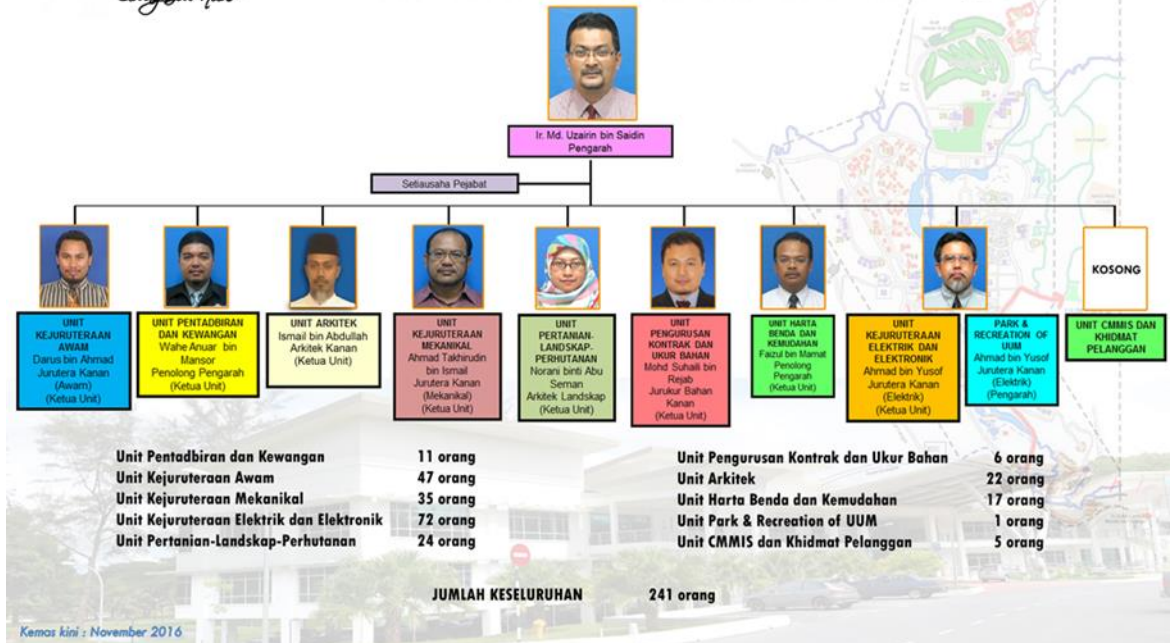


Figure 6: The JPP organization chart

The person responsible for these assets is Puan Noraini binti Abu Seman, Unit leader for Unit Pertanian Landskap – Perhutanan.

## ACCOUNTING REPORTING FRAMEWORK FOR UUM

Organizations and institutions in Malaysia are all required to prepare statutory financial statements. The financial reporting framework serves as a guideline to ensure each needed criterion is being fulfilled. These statements must be prepared in accordance with the approved accounting standards which have been set forth by the regulatory bodies, such as Malaysian Accounting Standards Board, which also known as the MASB.

It is important to understand the types of approved accounting standards that are recognised and practiced in Malaysia. There are three (3) types of approved accounting standards in Malaysia:

- i. The Malaysian Financial Reporting Standards (MFRS) – This is the MASB approved accounting standards for entities, but this does not include private entities.
- ii. Malaysian Private Entities Reporting Standards (MPERS) – This replaces the previous PERS and is in effect from 1 January 2016. MPERS issued by MASB is a self-contained Standard that is applicable only to private entities.
- iii. Malaysia Public Sector Accounting Standard (MPSAS) – This is the accounting standard that is to be applied in the preparation of general purpose financial reports of public sector entities other than Government Business Enterprises (GBEs).

Currently, UUM prepares its financial statements in accordance to MPERS Standard. As previously mentioned, this Standard is applicable only to private entities. In February 2017, the MASB revised the Private Entity definition with the coming into operation of the Companies Act 2016 and Interest Schemes Act 2016, both on 31 January 2017. The revised definition shall be applied for the financial statements with annual periods ending on or after 31 January 2017. “Notice of Amendment to Private Entity Definition” is attached in Appendix I.

On the other hand, MPSAS was only been introduced in year 2013 and made compulsory by the year 2020. For MPSAS, Accountant General's Department (AGD) is responsible in issuing this standard. Earlier, the basis for accounting in MPSAS is the cash accounting. However, recently, the government has committed to switch its basis of accounting to accrual basis because of its benefit in providing a more comprehensive financial report to the public. It is expected that it will be fully implemented by year 2021, as announced by the Ministry of Finance, Lim Guan Eng.

The AGD has been given the responsibility to be the main driver for the implementation of accrual accounting in the public sector which includes developing the accounting policies and Standards. The AGD develops MPSASs which apply to the accrual basis of accounting and sets out requirements dealing with transactions and other events in the general purpose financial reports. Public sector entities include the Federal Government, State Governments and Local Governments, unless otherwise stated. Over the past two decades, a growing number of government bodies have begun moving away from cash accounting toward accrual accounting. UUM has yet to apply MPSAS but very much near to it. Azri did not see much transition problem with other assets, such as property, plant and equipment but he was still in blurry vision of this 'living asset' or should he call 'biological asset'? Azri wonders if there is any difference in the accounting treatment for living assets under MPERS and MPSAS.

### **BIOLOGICAL ASSETS / LIVING ASSETS**

Biological assets (generally known as 'living asset' in UUM) are type of assets that have different characteristics compared to other assets such as building, land, equipment, etc. What makes these assets different are; they grow, procreate, produce and degenerate, such as plants and animals. Therefore, the accounting treatments for these kinds of assets are also different and requires special accounting standard to deal with the issue.

Generally, for public listed companies, MFRS 141 Agriculture applies to account for biological assets when the entity business involving agricultural activity. MFRS 141 Agriculture covers on definition, recognition, measurement and disclosure for the biological assets and agriculture produce. The MFRS 141 explains how to measure the biological assets and agriculture produce at initial recognition and the change in the value of the biological assets. This Standard also requires extensive disclosure requirement on biological assets and agricultural produce.

Biological asset will be recognized when, and only when (Para 10), the entity controls the asset as a result of past events. The control generally refers to assets own by the entity. This control increases the entity's net assets and may contribute to the entity's profitable future economic events as reward. While, it also involves risk that requires well maintenance of the biological assets and agriculture produce to prevent or reduce possibilities of losses. Second, when it is probable that future economic benefits associated with the asset will flow to the entity. The entity may earn income and generate cash from the profitability of future economic events and third, when the fair value or cost of the asset can be measured reliably with proper transactions and adequate supporting documents for example.

A biological asset shall be measured at its fair value less cost to sell on initial recognition and at each reporting period (Para 12). The cost to sell is the cost that needs to be incurred in order to sell a product for example advertisement cost and brokerage or dealer's commission. Para 26 describes that gain or loss is recognized when the biological assets are measured at fair value less cost to sell at initial recognition. This gain or loss is included in the profit or loss

for the reporting period. Any change in the fair value less cost to sell of biological assets generates gain or loss and included in the profit or loss for the reporting period.

Based on the brief explanations of biological asset, it is understood that biological asset has its own treatment and specific standard to identify, measure, recognize and disclose. As previously mentioned, this MFRS standard set up for public listed companies that focus on entity business activity involving agricultural activity that may become a good guidance to help Azri having a good feel on how to record the UUM's biological assets using appropriate accounting standard. As advised by Dr Sitra and team, Azri and his team have chosen the first group of animal to start accruing, which is deer.

### **DEER (RUSA) FARMING IN UUM**

In UUM, the deer are originally bred from a male deer and 10 female Breed *Cerbus Timorensis* deer since year 1996. These deer were originally donated by the Ministry of Tourism under 6th Malaysian Plan. The purpose of the government under this initiative is to encourage the public universities in Malaysia in promoting the tourist activities in campus.

The deer are being taken care and feed up every day by the assigned JPP staffs. The deer eat grasses, seeds and fruits. The JPP staffs love the deer under their care.

*"There is one male deer called John. It will come to me whenever I call his name."*

Mr. Ahmad, JPP staff

The deer also undergo regular health check by the staffs in charge and interval health check by veterinary to ensure their healthiness and avoid sickness. The first batch of deer has grown up and become adults when they reach 2 years-old. The female deer gave birth to baby deer, usually one or two at a time. The baby deer or fawn are then grown up and give birth to another fawn when they reach 2 years-old. The cycle continues for several generations. By April 2019, the number of deer has increased to 163.



Figure 7: Breed *Cerbus Timorensis* deer



The main purpose of breeding deer in UUM is for recreational. Deer is one of the main attractions in UUM, besides ostrich. Deer breeding program is one of the activities that support the green campus status in UUM. It attracts tourists that come to UUM since the tourist can watch and feed the deer at no fee or charge. At the same time, a group of deer has been identified for the purpose of breeding. They are selected from high quality deer so that they can produce a healthy and strong generation of deer. Usually, breeding deer are separated from other deer that are used for tourist attraction.

Besides being use as tourist attraction and breeding purpose, part of the deer can be slaughtered and sold only if permission granted by a University committee and the Vice Chancellor. It means that the deer is also available for sale, but the occasion is very rare. However recently, due to the high demand and commercial value of deer in the market, UUM have decided to sell the deer through Sintok Agro Sdn Bhd in year 2018. Sintok Agro Sdn. Bhd is one of the subsidiary of Uniutama Property Sdn. Bhd. (UPSB). UPSB is a subsidiary of Uniutama Management Holdings Sdn. Bhd. (UMHSB). UMHSB is the wholly owned subsidiary UUM. Thus, UUM has indirect interest in Sintok Agro Sdn. Bhd.

Usually, only adult deer can be sold. The price of the deer are varies, depend on the age and weight. On average, a two-year old deer can be sold for RM2,000 at least. In the future, there is a plan to carry out a deer breeding training program which will be offered to the public and interested party at a certain price. These activities will generate income for UUM.

## **FINANCIAL REPORTING AND DISLOCURE**

According to Puan Norani, JPP's landscape architect, timely reporting on the deer statistics is necessary and required by the Jabatan Bendahari UUM. The deer statistics report consists of gender, age, quantity and value per deer. JPP UUM prepares this report every six (6) months particularly before the financial year end. The JPP staff keeps up to date records on the deer gender, age and quantity. This information are keyed-in and kept as Deer Statistics Report in computer (Microsoft Excel). This report is timely supervised by the officer in charge. The JPP does conduct prompt audit and inspection on the deer quantity and condition as to keep up to date information on the deer statistics which will be convenient for reporting purpose to the higher management.

### *Initial recognition and subsequent measurement*

Since the first year of deer received from the Ministry of Tourism, the number of deer has increased every year. As at 31 December 2017, the number of deer was 108 under the species of *Cerbus Timorensis*. The information on number of deer and its market value by age are presented in Table 1.

Table 1. Market value of deer by age (2017)

<b>Age</b>	<b>No. of deer</b>	<b>Market value per deer (RM)</b>
12-year-old	4	5,000
10-year-old	2	5,000
8-year-old	8	4,000
7-year-old	6	3,800
5-year-old	6	3,500
4-year-old	1	3,000
3-year-old	7	2,800
2-year-old	21	2,000
1-year-old	25	1,200
New born	28	500
<b>Total</b>	<b>108</b>	

Some deer in the same age group has different market price from the value given in Table 1. The market value of one of 5-year-old deer is RM5,000. Its market value is higher as this deer is used for breeding purpose. Two (2) of deer aged 3-year-old have a market value of RM2,500 each, while in 2-year-old deer group, there are two (2) deer have a market value of RM1,800 and five (5) deer have a market value of RM1,500.

During 2018, 28 fawn were born. The market value for newborn fawn is RM800 each. In the same year, six (6) deer were slaughtered by the UMHSB Sdn Bhd (a subsidiary of UUM) for Eid feast. The carrying amount of the slaughtered deer at the beginning of year 2018 is shown in Table 2.

Table 2. Carrying amount of slaughtered deer in 2018

Carrying amount (RM)	No. of deer
2,500	2
2,000	2
1,200	2

The statistics and market value of deer as at 31 December 2018 is shown in Table 3. The table excludes the slaughtered deer (6 deer) and includes the new born fawn. The market price for each age group has increase slightly as compared to the previous year.

Table 3. Market value of deer by age (2018)

Age	No. of deer	Market value per deer (RM)
13-year-old	4	4,000
11-year-old	2	4,000
9-year-old	8	4,000
8-year-old	6	4,000
6-year-old	6	4,000
5-year-old	1	4,000
4-year-old	5	3,000
3-year-old	19	2,500
2-year-old	23	2,000
1-year-old	28	1,500
New born	28	800
<b>Total</b>	<b>130</b>	

Three (3) deer aged 1 year old have a market value of RM1,800.

#### *Disclosure in Financial Statement*

Basically, the financial statements of UUM are prepared in accordance with the MPERS reporting framework. The basis of accounting adopted by UUM is historical cost convention with some exception for some items. The excerpt of UUM Statement of Financial Position of 2017 reports the following:

	<b>Group RM</b>	<b>UUM RM</b>
Assets:		
Property, Plant and Equipment	689,875,006	624,128,241
Investment Property	2,734,667	772,031
Construction in Progress	4,512,610	4,512,610
Investment in Subsidiary	-	20,000,000
Long-term Investment	6,633,688	6,633,688
Long-term Receivables	6,662,462	6,662,462
Goodwill	336,357	-
	<hr/> 710,754,790	<hr/> 662,709,032
Current Assets		
Inventories	448,490	-
Receivables	37,163,436	51,857,473
Current tax receivables	783,086	-
Fixed deposits	231,742,013	204,630,000
Cash and bank balances	13,912,028	9,654,824
	<hr/> 284,049,053	<hr/> 266,142,297
<b>Total Assets</b>	<b>994,803,843</b>	<b>928,851,329</b>

The statement shows that UUM did not disclose the information on biological assets on the face of Statement of Financial Position. Azri has mentioned that UUM did not provide the information as the amount is small, which is immaterial to disclose.

*“We did not disclose information about deer in the financial statements because the value is small and to us they are not material”*

Based on internal records the market value of deer as at 31 December 2017 was RM212,400. When comparing to the total assets of the UUM, the total value of deer is less than 1%.

#### *Deer Valuation*

The deer valuation mainly based on the weight and age of each deer. For each deer's value, JPP staff used the Veterinar Kedah Rusa Value Report which comprise of standardized deer value in accordance with the deer's age. The Veterinar Kedah has deer experts who have good knowledge on deer's conditions and well-being. Thus, JPP staff depends to Veterinar Kedah report for reasonable and independent assurance on the deer valuation price. Practically, the value of each deer is based on the predetermined value by age as prescribed in the Veterinar Kedah Rusa Value Report. In sum, the valuation of the each deer is attained from the value classified by age stated in the Veterinar Kedah report. For actual valuation for each deer is done upon university management request where the JPP staff seeks professional assistance from Veterinar Kedah by inviting them to determine the valuation for each deer. Thus, only for special cases, the Veterinar Kedah staff shall visit the university farm to conduct valuation for each deer. Besides for valuation purpose, JPP also invites Veterinar Kedah experts for other purposes, for example deer medical treatment and in some cases to determine the cause of the deer death. Basically, there is no fee involved for the services rendered by Veterinar Kedah as this is one of the government agencies.

In summary, the Veterinar Kedah vision is to provide quality veterinary services to ensure the well-being of the public and the established animal industry for the sake of human well-being. The objectives are as follows:

1. Strengthen and maintain the health status of animals that is believed to be conducive to the animal industry.
2. Ensuring public health through zoonotic disease control and the creation of clean and safe animal-based foods.
3. Promote sustainable livestock production and value-added industries.
4. Explore, develop and promote optimal use of technology and resources in animal-based industries.
5. Organize animal welfare practices in all aspects of preservation and production systems. (Retrieved from: <http://www.dvskedah.gov.my/utama/visi-misi-objektif> and converted to English language accordingly).

#### *Inter-company Transfer*

UUM is a public institution with the principal activity focusing in education. UUM has intention to commercialize some of the deer activities by channelling this activity to Sintok Agro Sdn. Bhd. The Sintok Agro Sdn. Bhd. has a variety of agricultural facilities such as greenhouses and farms for the purpose of planting ornamental flower plants offered for ceremonies, entertainment programs at offices, institutions and schools. Other services such as floristry, ornamental plants are also offered. Apart from agricultural activities, Sintok Agro Sdn. Bhd. also has a deer farm and offers deer meat for sale.

In year 2018, with the approval of the UUM management, UUM transferred 100 deer (this figure has been excluded from Table 1 and 3) to Sintok Agro Sdn Bhd at zero (0) cost as to commercialize the deer activity. This is because Sintok Agro Sdn Bhd principal activity focusing in agriculture, thus, it will be a good start to expand the deer business operation. UUM has authorized the Sintok Agro Sdn Bhd to breed and sell deer meat to other companies and public with possibility to enhance the group firm performance. As this intercompany transfer of deer incurred without any cost, no transactions have been recorded in the company or group accounts. However, the deer transfer report has been prepared by the JPP staff as an evidence for the transfer of deer took place from UUM to Sintok Agro Sdn Bhd. The details of the deer transfer report is as follows:

Table 4. Deer intercompany transfer

No	Age	Quantity	Value per Deer (Approximate)	Total
			RM	RM
1	2	50	800	40,000
2	3	16	1,800	28,800
3	4	2	2,200	4,400
4	5	7	2,500	17,500
5	6	5	2,800	14,000
6	7	1	3,000	3,000
7	9	6	4,000	24,000
8	10	8	4,000	32,000
9	12	1	4,000	4,000
10	14	4	4,200	16,800
	<b>Total</b>	<b>100</b>		<b>184,500</b>

However, due to some operational issues, on 12 May 2019 with the management approval the 100 deer have been transferred back to UUM under JPP's care and custody. As this is a special case, the JPP has invited the Veterinar Kedah to conduct inspections and valuation for each of these 100 deer. The 100 deer shall be combined with other 163 Rusa that would make up a total of 263 deer at the deer farm under the control and management of JPP UUM.

### **CONCLUDING REMARKS**

As the person who's held responsible to properly recognize, measure and disclose the value of biological assets according to the appropriate accounting standard, Azri (protagonist) is now wondering whether or not to change the use of the current accounting Standard. If the changes should take place, he has to choose the right type of accounting reporting framework that should be applied by UUM, then decide on how to start implement the new accounting treatment for biological assets in UUM.

### **Acknowledgements**

We would like to thanks Universiti Utara Malaysia, IMBRE and TISSA-UUM for granting the grant and the support by the respondents, reviewers and colleagues to make this teaching case feasible.

## TEACHING NOTE- PROCEEDING PAPER

*Proceedings of the International Case Study Conference  
24-26 Nov. 2019, Sabah, Malaysia*

### **From Fawn to Deer: Measurement of a Biological Asset**

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#### **Teaching Case Synopsis**

This case provides a study on agriculture activity by Universiti Utara Malaysia (UUM). The purpose of this case is to create greater awareness for students on both the accounting framework and methods recommended for specific assets in agriculture activity, i.e. biological assets. The use of standard measurement of other non-current assets such as property, plant and equipment is not relevant for biological assets, as this type of asset has different characteristics and purposes in business. This case provides students with experience in explaining the nature of an organization's agriculture activities and accounting for biological assets as recommended in the Malaysian accounting framework. In addition, students are also exposed to the current issue in accounting standards, such as public interest and ethical issue. In this case, Mr Azri, an accountant at UUM and also a leader for asset unit was responsible for reporting the value of all assets in UUM, including 'living assets' or 'biological asset'. Recently, he was instructed to accurately recognize, measure and disclose the value of 'biological assets' according to appropriate accounting standard. Furthermore, UUM is urged to replace the existing accounting standard of the Malaysian Private Entity Reporting Standard (MPERS) to the Malaysia Public Sector Accounting Standard (MPSAS). Mr Azri is now considering whether to change the use of the current accounting Standard and how to account and report for biological assets according to the new accounting Standard. This case is a decision or "unfinished" case which is suitable for Financial Accounting and Reporting courses.

**Keywords:** Biological assets, public universities, agricultural activities, financial reporting

#### **LEARNING OBJECTIVES**

- I. To identify the relevant accounting standard in recognizing, measuring, reporting and disclosing biological assets by public universities in Malaysia.

- II. To apply the appropriate accounting treatment in recognizing, measuring, reporting and disclosing biological assets in accordance with the appropriate accounting standard by public universities in Malaysia.
- III. To understand the ethical issues involving unrecorded transactions in the company's or group accounts for the intercompany transfer between the parent and its wholly-owned subsidiary.
- IV. To gain knowledge on how the proposed accounting standard would serve or add value to the public interest.

**LEVEL OF TEACHING CASE DIFFICULTY**

This course has a medium to a high level of difficulty in solving the decisions.

**IDENTIFIED COURSES WHERE THE TEACHING CASE CAN BE USED**

Course(s) where the case can be applied are:

- (i) BKAR 2023 Financial Accounting and Reporting II
- (ii) BKAR 3043 Financial Accounting and Reporting IV
- (iii) BKAR 3063 Specialised Financial Accounting
- (iv) BKAL 3063 Integrated Case Study

**CASE TEACHING PLAN**

i)	Give the case in advance to the students before the class. For example, two weeks earlier. Students are asked to read the Case, discuss and prepare the materials for the presentation.	
ii)	Selected group/students are required to explain the case in class.	20 minutes
iii)	Selected group/students are asked to highlight the issues in the case	20 minutes
iv)	To conduct a group presentation to answer the relevant questions in the Case.	60 minutes
v)	Open for Q&A session	10 minutes
vi)	Instructor conclude the Case	10 minutes

\*Notes: The time planned is only suggestion. It's up to the lecturers to decide on time planning.

**CASE TEACHING PLAN (the instructor's supplement to the case preparation chart)**

<b>Question</b>	<b>Student</b>	<b>Instructor</b>
<p><b>Question 1:</b> Appropriate accounting framework for agriculture activity</p>	<p>Students should discuss the scope and applicability of MFRS141, MPERS 34 and MPSAS 27 to different types of entity.</p>	<p>Observe whether students can identify the appropriate accounting standard to be applied by UUM as a public university in preparing their financial statements.</p>
<p><b>Question 2:</b> Definition of agriculture activity</p>	<p>Students should discuss the scope and definition of agriculture activity as stated in the accounting standards</p>	<p>Observe whether students can apply the theoretical to accounting practice in defining the deer activity as agriculture activity.</p>
<p><b>Question 3:</b> Definition and recognition criteria of a biological asset</p>	<p>Students should discuss the definition and recognition criteria of a biological asset, as stated in the accounting standards and its application in this case.</p>	<p>Observe whether students can apply the theoretical to accounting practice in defining and determining recognition criteria for the deer activity.</p>
<p><b>Question 4:</b> Initial and subsequent measurement for biological assets</p>	<p>The student should apply the relevant paragraph in the appropriate accounting standard to record the biological assets at initial and at year-end.</p>	<p>To observe the calculation made and the journal entries prepared by the students.</p>
<p><b>Question 5:</b></p>		<p>To observe the appropriateness of the</p>



Presentation of biological assets in financial statement	Students should illustrate the presentation of biological assets in financial statement	illustration of the biological assets in financial statement
<b>Question 6:</b> The appropriateness of the deer valuation method	Students should discuss the (1) validity of the predetermined deer value report, whether it has been prepared based on market condition or other relevant data to determine deer valuation. No doubt that the Veterinary Kedah staff have sufficient knowledge on the deer well-being, (2) how about Veterinary Kedah staff knowledge on the market condition or the price assumption determined by the market participants from the orderly transaction during the measurement date of the deer fair value? (3) on the appropriateness of JPP staff to depend on predetermined deer value without inviting the Veterinary Kedah staff for physical inspection for the valuation purpose).	To observe for the appropriateness of the answers given by the students and allow for open discussion among the students to enhance their critical thinking skills.
<b>Question 7:</b> The ethical issues involving the intercompany transfer at zero cost between the parent and its wholly-owned subsidiary.	Students should elaborate on ethical issues involving the intercompany did not disclose the related party transaction in the financial statements that could mislead the users of financial statement opinion.	To encourage open discussion among the students on this matter as to enhance their critical thinking skills.
<b>Question 8:</b> The chosen accounting standards as above would	Students should provide a rational answer on accounting standards in serving the public interest.	This is a lifelong learning question for students where and it

serve or add value to the public interest.		gives room for a brainstorming session in the class.
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### **TEACHING SUGGESTIONS**

The instructor requires to cover the relevant topics of the subject before giving the case to the students.

*Example 1:*

To cover the Biological Asset topic in Financial Accounting and Reporting II, in order to discuss Question 1-6.

*Example 2:*

To cover the Related Party Disclosure topic in Financial Accounting and Reporting IV, to discuss Question 7.

*Example 3:*

All the questions in the case are suitable for the Integrated Case Study course except Question 7.

### **CLASS TESTED EVIDENCE**

This case study has been run and tested in discussing ‘Biological Assets’ topic in the Financial Accounting and Reporting II (BKAR2023) course during Semester 1 (2019/2020 Session) at Tunku Puteri Intan Safinaz School of Accountancy (TISSA-UUM). Students are required to read the case study and answer Question 1 until 6 in a group. Then, students are required to present the answers verbally and in writing.

Overall, the students have no problem in understanding the information provided in the teaching case. Thus, it shows that the teaching case is clear and well written with adequate information for them to make decisions. Students are also able to provide similar answers as suggested in the teaching note for calculation questions, and offer a variety of perspectives and answer for discussion questions. This case narrative is acceptable because it shows that the students can argue and think critically. It also indicates that the teaching case has the right combination of closed-ended questions that able to check students’ technical knowledge and open-ended question that stimulate discussion. Overall, the students and the lecturer are satisfied when using this case study because it has helped them to achieve the learning objective of the topic.

As a result, an improvement has been made to the teaching note. The document has been refined to include other possible answers as offered by the students during the discussion.

## **TEACHING CASE DISCUSSION QUESTIONS AND SUGGESTED ANSWERS**

### **Question 1:**

**Discuss in general the appropriate reporting framework (accounting standard) that UUM should apply. *Appendix I is attached as additional reading material.***

Universiti Utara Malaysia (UUM) is one of the public universities in Malaysia. It is classified as a public sector entity. Thus it is different from a public listed entity and private entity. Therefore, the accounting standard that is to be applied in the preparation of general-purpose financial reports of public sector entities is Malaysia Public Sector Accounting Standard (MPSAS). However, in earlier years, there is no specific accounting standard for public sector entity. The MPSAS has only been introduced in the year 2013 and made compulsory by the year 2020 and is expected to be fully implemented in the year 2021.

However, for current and previous practice, the financial statements of UUM have been prepared in accordance with Malaysian Private Entities Reporting Standards (MPERS). MPERS is considered as more practical accounting standards to be applied by a public entity as compared to MFRS because it requires less regulation and monitoring, unlike the public listed companies. The issue is, MPERS issued by MASB is a self-contained Standard that applies only to private entities (the definition of private entity can be discussed from the Appendix I “Notice of Amendment to Private Entity Definition” attached). However, it has made compulsory by the year 2020, UUM should start to apply MPSAS to prepare its financial statements. (Students can also justify if they are in the opinion that UUM should continue with MPERS).

### **Question 2:**

**Does the deer activity in UUM meet the definition of agricultural activity as specified in the appropriate accounting standard above? Justify your answer.**

According to MFRS 141, MPSAS 27 and MPERS Section 34, an agriculture activity is defined as the management of the biological transformation and harvest of biological assets for sale or for conversion into agriculture produce or additional biological assets.

Thus, based on the definition above, it seems like the deer activity fulfil the definition of agriculture activity since UUM manage its biological transformation since childbirth until adult. Then, the additional biological asset is produced with the birth of fawn and are breed and grown until it becomes adult. However, UUM has three (3) different purposes of deer: breeding, recreational and sale. Therefore, UUM needs to identify or classify which deer will be used for breeding purposes, or attraction purposes, or slaughter or sale purposes for the purpose of recognition and recording of biological assets in its account. Proper classification is important because it will determine the valuation method and the presentation that is suitable for deer in the financial statement of UUM.

**Question 3:**

**Does the deer fulfil the definition and recognition criteria of biological assets in accordance with the appropriate accounting standard? Discuss your answer.**

According to MFRS 141, MPSAS 27 and MPERS Section 34, biological asset is defined as a living animal or plant. In this case, deer is a living animal. Therefore, it fulfils the definition of a biological asset.

According to MFRS 141, MPSAS 27 and MPERS Section 34, the recognition criteria for an agricultural activity are similar, which are:

- 1) the entity controls the biological asset as a result of past event,
- 2) it is probable that future economic benefits will flow into the entity, and
- 3) the fair value or cost of the biological asset can be determined reliably.

UUM has control over all deer as a result of the donation made by the Ministry of Tourism to UUM in the year 1996. Ever since UUM has control over the ownership and the benefits from the deer, thus, it fulfils the 1st recognition criteria.

It is argued that the deer activities that are used for attraction may bring economic benefit to UUM indirectly because it attracts tourist to come to UUM. The increasing number of tourists will help to boost UUM revenue because the tourist will spend time and money at shops in UUM. It also helps to improve UUM's ranking in environment ranking. It encourages students to come and learn at UUM, consequently increase revenue for UUM through tuition fee and accommodation fee. Similarly, for deer that is used for breeding purpose. This group of deer is grown to breed more deer, which will be used for sale or attraction. Therefore, it does not generate income directly. Although the deer that are used for attraction and breeding may bring indirect economic benefit to UUM, it can be argued that the economic benefit generated is not

highly probable from this group of deer because there is an uncertainty of revenue generation. It only assists the UUM in its operation to generate revenue. Therefore, it can be argued that this group of deer does not fulfil the 2nd recognition criteria of biological assets. However, if the probability of generating revenue from attraction and breeding activities is proven to be high and certain, then these two groups of deer can fulfil the 2nd recognition criteria.

However, deer that are grown for selling meets the recognition criteria for agriculture activity. It is because UUM can generate cash flow directly from selling the deer. The selling activity of deer is a direct revenue-generating activity for UUM. Adult deer are sold for approximately between RM2,000 to RM5,000. UUM also sell living deer for breeding purpose to other entities. These selling activities do bring probable future economic benefit to UUM. Therefore, deer that are designated for sale seems to fulfil the 2nd recognition criteria of agricultural activity.

Besides, the cost and fair value of the deer can also be determined regularly based on the valuation made by the veterinary. The fair value is determined based on age, size and weight of the deer. Therefore, it fulfils the 3rd recognition criteria.

In conclusion, the deer that is grown for the purpose of selling do fulfil all the three recognition criteria of biological assets. Therefore, this group of deer shall be recognized as biological assets. However, the deer for the purpose of attraction and breeding does not fulfil the recognition criteria of a biological asset. Therefore, this group of deer should not be recognized as biological asset.

**Question 4:**

**With reference to the appropriate accounting standard, how would UUM account the value of the biological assets for the initial and subsequent measurement for the year 2018? Prepare the related journal entries. Assume that the cost to sell to be zero.**

**2018**

		Debit (RM)	Credit (RM)
New-born fawn	Dr Biological assets	22,400	
(refer to Table 3)	Cr Fair value gain		22,400
	(28 x RM800)		

31 Dec 2018	Dr Biological assets	58,400	
	Cr Fair value gain*		58,400
	*Changes in fair value (excluding slaughtered deer)		
	13-year-old = $(4,000 - 5,000) \times 4$ deer = (4,000)		
	11-year-old = $(4,000 - 5,000) \times 2$ deer = (2,000)		
	9-year-old = $(4,000 - 4,000) \times 8$ deer = 0		
	8-year-old = $(4,000 - 3,800) \times 6$ deer = 1,200		
	6-year-old = $(4,000 - 3,500) \times 5$ deer = 2,500 $(4,000 - 5,000) \times 1$ deer = (1,000)		
	5-year-old = $(4,000 - 3,000) \times 1$ deer = 1,000		
	4-year-old = $(3,000 - 2,800) \times 5$ deer = 1,000		
	3-year-old = $(2,500 - 1,800) \times 2$ deer = 1,400 $(2,500 - 1,500) \times 5$ deer = 5,000 $(2,500 - 2,000) \times 12$ deer = 6,000		
	2-year-old = $(2,000 - 1,200) \times 23$ deer = 18,400		
	1-year-old = $(1,500 - 500) \times 25$ deer = 25,000 $(1,800 - 500) \times 3$ deer = 3,900		
	Total	= 58,400	

OR

Year 2017	No. of deer	Market value per deer (RM)	Total market value (RM)
Age			
12-year-old	4	5,000	20,000
10-year-old	2	5,000	10,000
8-year-old	8	4,000	32,000
7-year-old	6	3,800	22,800
5-year-old	5	3,500	17,500
	1	5,000	5,000
4-year-old	1	3,000	3,000
3-year-old	5	2,800	14,000
	2	2,500	5,000

2-year-old	14	2,000	28,000
	2	1,800	3,600
	5	1,500	7,500
1-year-old	25	1,200	30,000
New born	28	500	14,000
<b>Total</b>	<b>108</b>		<b>212,400</b>
<b>Year 2018</b>	<b>No. of deer</b>	<b>Market value per deer (RM)</b>	<b>Total market value (RM)</b>
<b>Age</b>			
13-year-old	4	4,000	16,000
11-year-old	2	4,000	8,000
9-year-old	8	4,000	32,000
8-year-old	6	4,000	24,000
6-year-old	6	4,000	24,000
5-year-old	1	4,000	4,000
4-year-old	5	3,000	15,000
3-year-old	19	2,500	47,500
2-year-old	23	2,000	46,000
1-year-old	25	1,500	37,500
	3	1,800	5,400
<b>Total</b>	<b>102</b>		<b>259,400</b>

$$\begin{aligned}
 \text{Carrying amount of slaughtered deer} &= (2,500 \times 2) + (2,000 \times 2) + (1,200 \times 2) \\
 &= 11,400 \\
 \text{Beginning fair value without slaughtered deer} &= 212,400 - 11,400 \\
 &= 201,000 \\
 \text{Changes in fair value (2018)} &= 259,400 - 201,000 \\
 &= 58,400
 \end{aligned}$$

**Or**

$$\text{Carrying amount of slaughtered deer} = (2,500 \times 2) + (2,000 \times 2) + (1,200 \times 2)$$

	= 11,400
Ending fair value including slaughtered deer	= 259,400 + 11,400
	= 270,800
Beginning fair value	= 212,400
Changes in fair value (2018)	= Ending FV – Beginning FV
	= 270,800-212,400
	= 58,400

**Question 5:**

**How should the information on biological assets be presented in the financial statement in accordance with the appropriate standard for the year 2018?**

The MPSAS 27, MFRS 141 and MPERS requires an entity to disclose the 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 assets. An entity shall provide a description of each group of biological assets.

The information on reconciliation of the biological assets includes:

- h) the gain or loss arising from changes in fair value less costs to sell;
- i) increases due to purchases;
- j) decreases attributable to sales and biological assets classified as held for sale
- k) decreases due to harvest;
- l) increases resulting from business combinations;
- m) net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and
- n) other changes.

The information on biological assets should be presented as follows in financial statements:

**Notes to the financial statements**

**3. Accounting policy**

*Livestock*

Livestock (deer) are measured at their fair value less costs to sell. The fair value of livestock is determined based on Veterinary Kedah Rusa Value Report, which comprises of standardized deer value in accordance with the deer's age.



#### 4. Biological Assets

<b>Reconciliation of Carrying Amounts of Deer Livestock</b>	<b>2018 (RM)</b>
At 1 January 2018	212,400
Increases (newborn)	22,400
Fair value changes	58,400
Decreases (slaughtered)	(11,400)
<b>At 31 December 2018</b>	<b>281,800</b>

#### Question 6:

**Discuss the appropriateness of the deer valuation method used to determine the deer value for the Deer Statistics Report.**

The students are expected to give their opinion on the appropriateness of the deer valuation method. The reason for this is that an inappropriate valuation method likely to influence the deer value. This may mislead the management decision making on deer matters, particularly on the overall deer value. The staff in charge derived each deer value from the predetermined deer value stated in the Veterinary Kedah Rusa Value Report without any physical inspection from the deer experts. The predetermined deer value is the standardized value prepared by Veterinary Kedah staff in accordance with the deer's age. This raised question whether this deer value determined without inspection is suitable or appropriate for the valuation of 163 deer?

There could be a contentious issue on the quality of the Veterinary Kedah Rusa Value Report in terms of method of valuation (valuation technique) on whether the market condition has been taken into consideration to determine the fair value amount. The fair value is the price computed either using observable inputs (e.g. market data) or unobservable inputs (e.g. entity own relevant data computed using valuation techniques) that would be received when the asset, e.g. deer is sold from an orderly transaction between the market participants e.g. potential buyer or seller at the measurement date for the valuation. Practically, the deer valuation is conducted for a specific period of time by a professional deer appraiser (e.g. market expert) as this expert shall estimate a reasonable deer value by considering the deer's well-being and market condition (e.g. market participants' assumptions on deer price). If there is no market data (e.g., information from an expert) available, the entity may alternatively use their own data for the valuation technique computation to determine the deer valuation. This alternative method should be only used when there is limited market data available for the deer

valuation as the computation conducted using own data instead of the market data. (Students opinions with well-justified answers are acceptable).

**Question 7:**

**Discuss the ethical issues involving the intercompany transfer at zero cost between the parent and its wholly-owned subsidiary without taken into the companies or group accounts.**

The students are required to discuss the ethical issues for the transfer of deer that had not been recorded in the accounts of the parent company (including the group accounts). Basically, transactions are evidence of business activities that affects the performance and financial positions of the company. In general, the 100 deer were transferred from the parent company to subsidiary company would consider as part of business activities that account for intercompany transactions. Basically, the intercompany transfer has occurred without any record in the accounts as no cost is charged by the parent company to the subsidiary company. The transfer report shows a total approximate value of RM184,500 and this business activity was not recorded in the accounts of both companies. Theoretically, omitting business transactions are possible to raise ethical issues that will mislead the financial statements users' judgement over the performance and position of the company. Practically, the unaccounted transfer with the value of RM184,500 would possible to give impact to the truth and fairness of the financial statements of the parent company including the group financial statements unless the details of the 100 deer transferred are well explained in the notes to financial statements.

Furthermore, this intercompany transfer of 100 deer is considered as a related party transaction between parent and subsidiary companies. The related party relationship exist when the entity has control in the company (parent has control in subsidiary, e.g. UUM has control in Sintok Agro Sdn. Bhd.) in accordance with MPERS Section 33 *Related Party Disclosures* and MFRS 124 *Related Party Disclosures*. Further, these two standards (MPERS Section 33 *Related Party Disclosures* and MFRS 124 *Related Party Disclosures*) states that an entity's financial statements should contain the disclosures which are necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. The disclosure of the transfer of 100 deer in the notes to the financial statements would make the intercompany transfer more transparent. The disclosure of the intercompany transfer of 100 deer in the notes to financial statements reveals on the ethical behavior of the entity's management by conforming to the accounting standards (e.g. MFRS 124 & MPERS

Section 33) and discharging their stewardship responsibility in safeguarding the assets of the entity as to protect the firm and shareholder value. This would reduce any ethical issues due to the existence of inherent risk in the intercompany transfer that possibly favors any of the related parties which raise questions on the stewardship of the entity management to the shareholders. However, the transfer of 100 deer requires approval from the members of the board with a proper advice from the auditors for the transfer of deer and extent of disclosure in the notes to financial statement in compliance with the accounting standards. (Students opinions with well-justified answers are acceptable).

**Question 8:**

**The accounting standard is a financial reporting framework that guides the business transactions or events in terms of recognition, measurement, presentation and disclosure. How would the chosen accounting standards as above serve or add value to the public interest? Appendix II is attached as additional reading material.**

This challenging question on public interest requires students to explain how the chosen accounting standards contribute to the public interest. Basically, the firms depend on accounting standards to prepare financial statements. The harmonization of these standards globally is essential for business today due to corporates trend towards internationalization. It is believed that besides the business, the accounting standards also need to add value to the public interest. As the public also contributes to country economic development, thus, accounting standards require to address the need of the public, for example, on fair pricing of the value of goods. Assuming the students have chosen MFRS 141 *Agriculture*, in accordance to Para 13 MFRS 141, agriculture produce are harvested from the biological assets shall be measured at fair value less costs to sell at the point of harvest. This agriculture produce will be transformed into inventory and sold to other companies and finally to the public. Agriculture produce potentially has adequate measurement to determine its fair value. This would be one of the possible ways that the accounting standards serve the public interest by initialization a reasonable value based on fair value measurement to determine the value of the agriculture produce which may directly or indirectly be sold to the public in future. The fair value less costs to sell measurement prescribed in the accounting standards is possible to contribute as a base for a reasonable price set initially for the overall goods price of the item sold to public in future. Thus, the appropriate valuation method believed to contribute to the fair pricing of goods in future. This fair value measurement in biological assets/ agriculture produces in accounting standards is considered to serve or add value to the public interest. (Students opinions with well-justified answers are acceptable).

### **Suggested additional reading / data gathering**

For this case students are required to have the following reading materials for discussion:

- a) MFRS 141 - The Malaysian Financial Reporting Standards (MFRS)
- b) MPERS Section 34 - Malaysian Private Entities Reporting Standards (MPERS)
- c) MPSAS 27 - Malaysia Public Sector Accounting Standard (MPSAS)
- d) MPERS Section 33 - Related Party Disclosures; and
- e) MFRS 124 - Related Party Disclosures.

Students also are expected to read the Appendix I and Appendix II attached with the Case.

### **LEADING CASE DISCUSSION QUESTIONS**

Question 1 – 5

### **IDENTIFICATION OF THE RELEVANT THEORIES/CONCEPTS SUPPORTING THE CASE'S CENTRAL ISSUE(S)/DECISION(S).**

This case study can apply the financial accounting and reporting framework, as discussed in the Conceptual Framework of Financial Reporting (IFRS Foundation, 2018). This framework is applicable in explaining any accounting issues.

### **REFERENCES**

- IFRS Foundation (2018). *Conceptual Framework for Financial Reporting*. Retrieved from <http://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>
- Malaysia Accountant's General Department (2015). *Malaysian Public Sector Accounting Standards (MPSAS) 27 Agriculture*. Retrieved from [http://www.anm.gov.my/images/JANM/Webmaster/PPPA/asas\\_akruanmpsas/MPSAS\\_BI/MPSAS\\_27\\_Agrculture\\_v1.0\\_5-3-2015.pdf](http://www.anm.gov.my/images/JANM/Webmaster/PPPA/asas_akruanmpsas/MPSAS_BI/MPSAS_27_Agrculture_v1.0_5-3-2015.pdf)
- Malaysian Accounting Standard Board (2016). *Malaysian Private Entity Reporting Standards (MPERS)*. Retrieved from [http://www.masb.org.my/pdf.php?pdf=MPERSStd2016\\_Final\\_updated16oct18.pdf&file\\_path=pdf\\_file](http://www.masb.org.my/pdf.php?pdf=MPERSStd2016_Final_updated16oct18.pdf&file_path=pdf_file).
- Malaysian Accounting Standard Board (2011). *Malaysia Financial Reporting Standard (MFRS) 141 Agriculture*. Retrieved from [http://www.masb.org.my/pdf.php?pdf=BV2018\\_MFRS%20141.pdf&file\\_path=pdf\\_file](http://www.masb.org.my/pdf.php?pdf=BV2018_MFRS%20141.pdf&file_path=pdf_file)

# APPENDIX I

**MASB**

MALAYSIAN ACCOUNTING STANDARDS BOARD

LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

(ESTABLISHED UNDER THE FINANCIAL REPORTING ACT 1997)

## NOTICE – AMENDMENT TO PRIVATE ENTITY DEFINITION

Pursuant to subsection 7(1) of the Financial Reporting Act 1997 (Act 558) and regulation 3 of the Financial Reporting (Publication of Approved Accounting Standards) Regulations 1999, the Malaysian Accounting Standards Board (MASB) hereby gives notice that (with the coming into operation of the Companies Act 2016 (Act 777) and Interest Schemes Act 2016 (Act 778), both on 31 January 2017) the Private Entity definition has been amended and shall be applied for the financial statements with annual periods ending on or after 31 January 2017:

A private entity is a private company as defined in section 2 of the Companies Act 2016 that -

- is not itself required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia; and
- is not a subsidiary or associate of, or jointly controlled by, an entity which is required to prepare or lodge any financial statements under any law administered by the Securities Commission or Bank Negara Malaysia.

Notwithstanding the above, a private company that is itself, or is a subsidiary or associate of, or jointly controlled by, an entity that is a management company as defined in section 2 of the Interest Schemes Act 2016 is not a private entity.

The meaning of 'subsidiary', 'associate' and 'jointly controlled' are as respectively defined and explained in MFRS 10 *Consolidated Financial Statements* / FRS 10 *Consolidated Financial Statements*, MFRS 128 *Investments in Associates and Joint Ventures* / FRS 128 *Investments in Associates and Joint Ventures* and MFRS 11 *Joint Arrangements* / FRS 11 *Joint Arrangements*.

An entity may only be treated as a private entity in relation to such annual periods or interim periods throughout which it is a private entity.

**By order of the Board**

**MOHAMED RASLAN ABDUL RAHMAN**

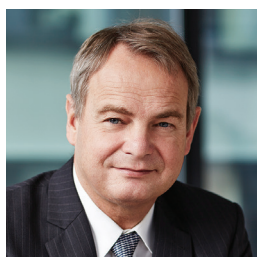
Chairman

Malaysian Accounting Standards Board

28 February 2017

## **APPENDIX II**

# Working in the Public Interest: The IFRS Foundation and the IASB



**HANS HOOGERVORST**  
CHAIRMAN  
INTERNATIONAL ACCOUNTING  
STANDARDS BOARD



**MICHEL PRADA**  
CHAIRMAN OF THE TRUSTEES  
IFRS FOUNDATION

## Introduction and summary

The International Accounting Standards Board (IASB) develops International Financial Reporting Standards (IFRS Standards) that are used widely around the world. The IASB is the independent standard-setting body of the International Financial Reporting Standards Foundation, a private not-for-profit foundation.

The IASB is a unique organisation. For example, it is the only privately organised member of the Financial Stability Board (FSB), which mainly consists of public regulators and government officials. Despite the IASB's private character, the use of its main product—IFRS Standards—is mandated by law in 116 jurisdictions, while 12 more permit the use of IFRS for domestic or foreign registrants on regulated markets. The vast majority of jurisdictions prescribe IFRS without substantive modifications.

As such, the IASB is responsible for one of the most pervasive, legally binding economic standards in the world. However, the fact that an organisation with strong private features is responsible for producing Standards on which public policy depends is for some also a source of discomfort.

The IASB is sometimes portrayed as a self-regulating body that is lacking in democratic accountability. Some have expressed concern that the IFRS Foundation is overly exposed to private, commercial interests and has insufficient regard for the public interest.

They argue that these perceived fragilities in its governance also permeate the quality of the IASB's standard-setting. In their view IFRS Standards are, beneath a veneer of technocratic neutrality, in reality too closely geared towards meeting the needs of short-term investors. By supposedly relying excessively on market-value-based fair-value accounting, the IASB is seen as having too little regard for prudence in accounting. Some believe that this promotes short-termism and excessive dividend policies in the capital markets.

All of these questions merit consideration and in this paper we will try to address them.

We will argue that the standard-setting of the IASB is motivated by a strong sense of public interest as embodied in our Constitution and, more recently, our Mission Statement. While the most active users of financial reporting are investors and creditors in the capital markets, the IASB recognises that its Standards are of great value for the public at large, in all its guises. We will explain why we advocate neutrality in accounting, even though we know that perfect objectivity is aspirational and hence impossible to attain. Far from fostering irresponsible profit-reporting and excessive dividend extraction, IFRS aims to impose rigour and discipline on the capital markets, thus promoting trust, economic growth and long-term financial stability. IFRS is also a very cost-effective way of promoting confidence in emerging economies.





# 1. The public interest of IFRS

From its inception, the IFRS Foundation has emphasised that IFRS Standards are created to serve the public interest. In our recently published Mission Statement<sup>2</sup> we define our mission as ‘to develop International Financial Reporting Standards (IFRS) that bring transparency, accountability and efficiency to financial markets around the world’. This statement is further explained as follows:

- IFRS brings **transparency** by enhancing the international comparability and quality of financial information, enabling investors and other market participants to make informed economic decisions.
- IFRS strengthens **accountability** by reducing the information gap between the providers of capital and the people to whom they have entrusted their money. Our Standards provide information that is needed to hold management to account. As a source of globally comparable information, IFRS is also of vital importance to regulators around the world.
- IFRS contributes to economic **efficiency** by helping investors to identify opportunities and risks across the world, thus improving capital allocation. For businesses, the use of a single, trusted accounting language lowers the cost of capital and reduces international reporting costs.

Of these three interrelated objectives, the goal of strengthening accountability is especially worth noting. In modern capital markets, the majority of economic actors (publicly listed companies, banks, insurance companies, hedge funds and asset managers) are working with other people’s money. Significant distance can exist between the providers of capital and the people to whom they have entrusted that capital. Modern capital markets are therefore rife with moral hazard, as the financial crisis has amply demonstrated. Solid accounting standards that impose discipline and rigour in financial reporting are essential for containing this moral hazard.

**Our Standards bring transparency, accountability and efficiency to financial markets around the world.**

Our mission statement sums up our contribution to the public interest as ‘**fostering trust, growth and long-term financial stability in the global economy**’. High quality accounting standards contribute to trust in the economy. Even for people who never look at financial reports, it is important that accounting standards lead to financial reporting that is both informative and trustworthy.

Academic research has shown that a single set of high quality accounting standards brings significant benefits to the global economy.<sup>3</sup> IFRS contributes to growth by improving capital allocation and lowering the cost of capital, not only in developed countries, but also in emerging economies. For countries such as Brazil, Malaysia and Korea, the adoption of IFRS was an integral part of a strategy to increase the international appeal of their capital markets and to foster economic growth. For the same reason, the World Bank has promoted the adoption of IFRS in many emerging economies while the Financial Stability Board has designated IFRS adoption as one of twelve ‘key standards’ for creating sound financial systems.<sup>4</sup>

The third element of public interest we mention in the Mission Statement—long-term financial stability—is less obvious at first sight. Fostering financial stability is not the primary goal of accounting standards; this is primarily the remit of prudential regulators, whose task it is to safeguard the solvency of the financial system. The transparency provided by accounting standards can in the short run even lead to instability as problems buried deep within a company’s balance sheet are brought to light. However, problems can best be addressed if they are first made visible by high quality accounting. That is why we believe that the transparency provided by high quality accounting standards is indispensable for, and contributes to, long-term financial stability.

Our commitment to the public interest also translates into continuous enhancements to the openness and inclusiveness of the IASB’s due process and structure. To ensure that the public interest is taken fully on board, our *Due Process Handbook* emphasizes the importance of the role of the regulatory community in our standard-setting.<sup>5</sup>

## 2. The audience of IFRS

The IASB's existing *Conceptual Framework* defines the primary users of financial statements as 'present and potential investors, lenders and other creditors'; in short, those economic actors who entrust or consider entrusting their money to the reporting entity. Some investors feel this primary audience is defined too broadly; they believe that only existing investors should constitute the primary audience of accounting. Others believe the audience of IFRS is defined too narrowly: they point to the previous version of the IASB's *Conceptual Framework*, which also included 'customers, governments and their agencies and the public' as users of financial statements. One study even suggested that the IASB 'privileges commercial interest when defining the rules of financial reporting'.<sup>6</sup>

The first thing to note is that our current definition of 'primary users' is not as limited as it may seem at first sight. In the modern economy, a large percentage of ordinary people invest in the capital markets. They do so either directly or indirectly, for example through participation in pension plans or mutual funds. Capital market actors are not just wealthy investors or hedge funds; many institutional investors act in a fiduciary capacity for ordinary people, often on a not-for-profit basis. Consequently, we strongly disagree with the notion that the IASB somehow 'privileges' commercial interests. There is a significant public interest in ensuring that investors—whichever they are or represent—have access to reliable financial statements.

Generally speaking, our Standards close the information gap between the management of a company and other stakeholders who have a viable interest in better understanding the financial well-being of that company. This may include investors and creditors, but also trading partners and customers.

Moreover, our Mission Statement states our belief in the public interest of our work. Clearly, fostering trust, economic growth and long-term financial stability are of immense importance to the public at large. This makes the public at large—even those who do not invest in capital markets—a stakeholder in our work. Perhaps this issue could be clarified during the current revision of the *Conceptual Framework*.

Some have argued that IFRS is too attuned to meeting the needs of short-term investors, to the detriment of those with a longer-term investment horizon. For example, a recent report stated that: 'While much of the financial sector is concerned with short time frames for economic decision, most clearly expressed in market-based fair-value accounting, other stakeholders (such as employees, civil society actors and regulators) have a longer-term orientation, often extending product or business cycles'.<sup>7</sup>

We share the concern that too many actors in the financial markets are driven by short term incentives. That is the very reason why the IASB aims to set standards that make it difficult to manipulate earnings and that bring hidden liabilities to light.

We believe, however, that in practice it is difficult to distinguish between long-term and short-term investors and we also believe that their information needs may not be very different. Pension funds and insurance companies trade assets regularly, while even long-term investors need to monitor which short-term developments may well represent the beginning of a longer-term trend. Moreover, many long-term 'value' investors use such short-term triggers as an opportunity to buy high quality assets at an attractive price.

Studies have shown that IFRS Standards are not tilted towards fair value,<sup>8</sup> and many long-term investments are reported on the basis of historical cost accounting. At the same time, it is clear that market values can be highly relevant for all investors. Obviously, for an institutional investor, the current value of shares that it acquired 20 years ago is much more relevant than the original acquisition price. We believe that IFRS, which relies on a 'mixed attribute' approach that combines historical cost accounting and fair value measurement, is appropriate for both short-term and long-term investment horizons.

Our existing *Conceptual Framework* also mentions that regulators are not considered to be a primary user of financial statements, because the objectives of general purpose financial reporting and the objectives of financial regulation may not be consistent. While it is true that regulators may have different policy objectives, our more recently issued Mission Statement mentions that IFRS is a vital source of information for the global regulatory community. We intend to clarify this apparent contradiction between the *Conceptual Framework* and the Mission Statement.

In practice, the IASB works very closely with the regulatory community, as mandated by our *Due Process Handbook*. In addition, as a member of the FSB, the IASB meets with G20-regulators on a regular basis. As a consequence, accounting issues are routinely discussed at the FSB. The IASB also has strong relations and cooperation agreements with the International Organization of Securities Commissions (IOSCO), the Basel Committee and many other international, regional and national supervisory authorities.

These agreements ensure that our work is coordinated with other developments in financial regulation globally.

### 3. The characteristics of IFRS

#### a. Accounting standards should portray economic reality, rather than shape it

Accounting standards aim to portray economic reality, rather than shape it. A comparison between the Basel capital requirements and IFRS makes this difference clear. While the Basel capital requirements tell banks how much capital they *should* have, IFRS Standards are 'merely' designed to show how much capital a bank actually has.

Accounting standards aim to describe economic reality as faithfully and neutrally as possible. They are not, and should not be thought of as a tool to change or hide reality. In other words, the way something is measured should not be changed just because the answer is not very attractive. Nevertheless, we acknowledge that accounting often involves judgement and that it is not a completely objective, purely technical discipline. Because of this, we work hard to view complex accounting issues from many different angles and to avoid an ideological approach to accounting. However, even if we acknowledge that accounting standards cannot achieve 100 per cent objectivity and precision, we aim to come as close as possible to this ideal. It would indeed be perverse to do the opposite and make subjectivity the goal of accounting, just because perfect objectivity is impossible to achieve.

#### b. Why even neutral standards can generate controversy

If the only ambition of IFRS is to portray economic reality as it is, why is it that accounting issues can at times generate heated debate? One answer is that because accounting is as much of an art as a science, there is obviously a lot of room for differences of opinion on both a) what is economic reality and b) how best to reflect that in accounting measurements. Consequently, accounting is subject to a lot of genuine, healthy intellectual debate, which we can only welcome.

However, there are also less noble motives for debate about accounting standards. Companies that report under IFRS have big interests at stake in accounting. Remuneration and reputations are often closely linked to profits, so there is an obvious incentive for some to favour Standards that provide a degree of flexibility to manage earnings. Companies also like their balance sheets to look lean, so our efforts to bring off balance sheet items onto the balance sheet can often meet fierce resistance.

**Accounting standards aim to describe economic reality as faithfully and neutrally as possible.**

Over the years, accounting standard-setters around the world have improved the rigour and discipline of their standards to limit the possibilities of earnings management and to bring previously undisclosed liabilities onto the balance sheet.

Those companies most affected often argued that the change to accounting standards would seriously damage their business model or cause too much volatility. Previous examples of such controversies include the expensing of stock options and getting pension liabilities on the balance sheet. Before these changes were introduced, management were able to give away, seemingly for free, large amounts of shareholder value in the form of stock option grants. Likewise, the financial consequences of management providing enhanced pension benefits were not adequately reflected in the balance sheet. Because of these changes, the consideration of such commitments is now discussed in the board room and scrutinised by investors.

At the time, these were hugely controversial changes, accompanied by extensive political lobbying. Today, such reporting is simply seen as normal practice. These experiences underscore the importance of the IASB serving the public interest, as well as the need to protect the ability of the IASB, having followed an extensive and open due process, to introduce often controversial enhancements to financial reporting.

In the end, the improved transparency provided by our Standards usually leads to better management of the risks that they make visible, thus reducing volatility in the long run.

The discipline of IFRS counteracts the tendency of some companies to show their results in the most favourable light. Almost all companies publish their own non-GAAP measures along with the IFRS financial statements. The fact that the vast majority of these adjusted earnings are higher than IFRS-defined earnings underlines the discipline and rigour imposed by our Standards.<sup>9</sup> In this way, IFRS helps to keep capitalism honest.

### 3. The characteristics of IFRS *continued*

#### c. IFRS contributes to prudence in capital markets

In the existing revision of the *Conceptual Framework*, the IASB removed the reference to the concept of ‘prudence’, because it believed that the term lacked precision and was open to too much interpretation. In recent years, some have come to attach greater significance to the change than was intended. Removing the word ‘prudence’ was never meant to give the green light to imprudent behaviour or Standards, nor is there any evidence that it did.<sup>10</sup> Nevertheless, partly because of the concerns that have been raised, the IASB has proposed to reintroduce a reference to prudence in the proposed revision of the *Conceptual Framework*.

Our proposed revision defines prudence as ‘the exercise of caution when making judgments under conditions of uncertainty’, so as to prevent understatement of liabilities and overstatement of assets and profits. We have also made clear that prudence cannot mean that profits are artificially understated. That would open the door to the creation of hidden reserves, which would most probably be released when earnings are under pressure, thus masking a negative performance of a company. Income smoothing can often lead to very imprudent accounting.

Some argue that IFRS allows for too much recognition of unrealised income, which could lead to unwarranted profits and dividend distribution. In itself, it is true that IFRS (or any other accrual-based accounting standard, for that matter) recognises unrealised income (both profits and losses). The whole essence of accrual accounting is that economic events are recognised regardless of when cash transactions occur. For example, it makes no sense to recognise the full expense of a factory in the year when it is paid for, while its economic life is expected to span at least 20 years.

Not only does it make little economic sense to base accounting on realised profits - it is also very dangerous. Suppose a bank has a portfolio of financial instruments of which 90 per cent are loss making while only 10 per cent have a value above the purchase price. If this bank’s profit were based on realised income, it could easily show a profit by merely selling the profitable assets and by holding on to its loss-making assets. The bank would report a decent profit, while actually being in serious financial trouble.

In other words, basing reported profits purely on realised income makes the income statement very easy to manipulate.

Our Standards do not govern dividend policies; that is the responsibility of the relevant public authorities in any jurisdiction. In most countries, dividend policies are dealt with by company law or regulation. Our contribution to this process is to provide the full and necessary information to inform such decision-making.

In sum, we believe that IFRS contributes to prudence—in the general sense of the word—in capital markets. To appreciate the rigour and discipline imposed by IFRS, a comparison with public sector accounting is instructive. In many public sector accounts, vast amounts of statutory social security liabilities are not recognised or consolidated. While companies must show their employee pension liabilities, many governments simply do not, or not completely. While not perfect, IFRS Standards, especially after the improvements in lease accounting, ensure that the balance sheet accurately reflects the full extent of a company’s liabilities.

#### d. Complexity

There is little doubt that in the past decades, annual reports have increased in complexity and length. Some of this can be attributed to the disclosure requirements of IFRS, but non-IFRS regulation—often made at a national level— can often have a bigger role.<sup>11</sup>

Moreover, much of the complexity of accounting is a reflection of an increasingly complex economic reality. That view is shared by others. For example, in its recent report on its evaluation of the IAS Regulation<sup>12</sup>, the European Commission concluded that much reporting complexity is unavoidable, because it reflects the underlying complexity of business. Insurance, pensions and derivatives are all highly complex financial instruments for which there is no simple accounting.

The distinction between equity and liabilities has become increasingly blurred. Business acquisitions inevitably lead to complex accounting.

Setting accounting standards therefore requires significant technical expertise. Even though our Standards are principle-based, they contain a lot of technical detail to enable companies to apply the Standards properly. The complete suite of Standards is highly interrelated and changing one Standard often has repercussions for other Standards. All this makes accounting standard-setting a highly complex activity.

**Much of the complexity of accounting is a reflection of an increasingly complex economic reality.**

While we believe that complexity is here to stay, we are working hard to make it more manageable. For example, our Disclosure Initiative is aimed at making improvements to our Standards that will encourage companies to avoid immaterial information and boilerplate disclosures. We are also working closely with securities regulators and auditors, whose support is needed to make this a success. This initiative should help to make disclosures more succinct and understandable.

Moreover, because the IASB is finishing its work on major new Standards, we will be able to devote more time to improve the consistency of our existing Standards, making them easier to apply in practice.

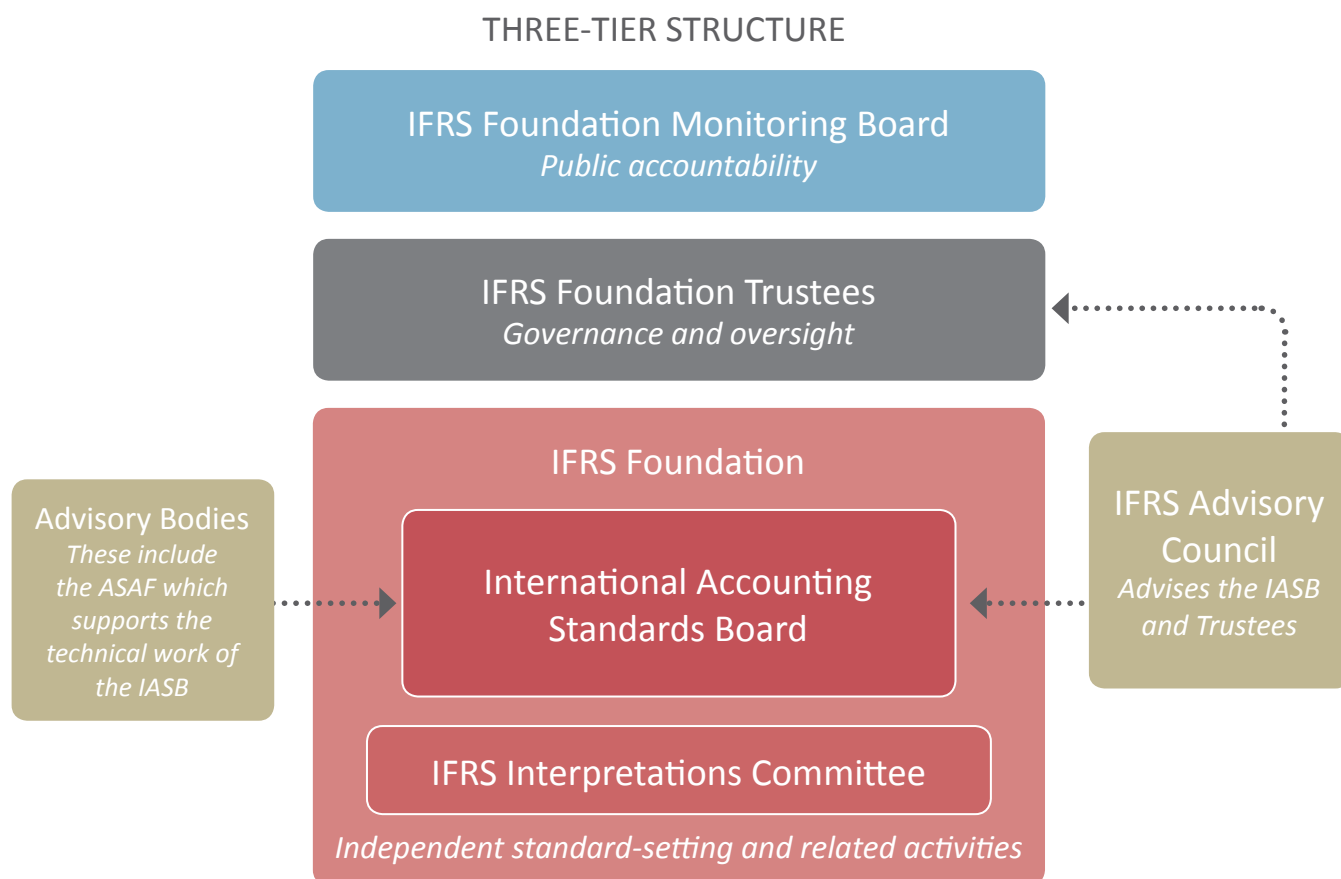
Finally, the IASB's comprehensive due process (as described in more detail in the next section) provides stakeholders from around the world with a mechanism to ensure that the Standard once completed can be applied as efficiently as possible across both developed and emerging economies.

## **e. The scope of IFRS: is it too narrow?**

Alongside financial reporting, there are many other developments in the realm of corporate reporting, such as sustainability reporting and non-financial corporate governance reporting. Until now, our position has always been that the IASB is especially qualified at financial reporting and that we should stick to our trade. This is sometimes seen as the IASB being not sufficiently responsive to wider public reporting needs. However, we believe other types of reporting, or accounting-related policies (such as dividend distribution policies) are best left to the remit of the relevant authorities or other standard-setters. IFRS delivers the reliable and globally consistent financial information upon which public policy can be built.

At the same time, we have a constructive relationship with the International Integrated Reporting Council, enshrined within a Memorandum of Understanding, which promotes integrated reporting of both financial and non-financial information. We also participate in the Corporate Reporting Dialogue, a forum that brings together organisations that issue standards and frameworks with international impact. In our current *Review of Structure and Effectiveness* we are seeking feedback on whether the IASB should play a more proactive role in non-financial reporting.

## 4. Governance, finance and accountability



International economic organisations can be divided into international treaty organisations, such as the International Monetary Fund and the World Bank, and non-treaty organisations, such as the Financial Stability Board and the Basel Committee that rely more on ‘soft power’. The IFRS Foundation and the IASB clearly belong to the latter group, with a mix of private and public characteristics in our governance. Generally speaking, the IFRS Foundation and the IASB have less pronounced public characteristics than other organisations, but the highest degree of transparency and public consultation in their due process.

### a. The three-tier structure, independence and public accountability

The IFRS Foundation was founded under the auspices of global securities regulators (IOSCO) as a private, not-for-profit body in 2001, with the aim of contributing to the development of global financial markets and cross-border activity. Similar governance models can be found in many countries, including Germany, Japan, Korea, Malaysia, the Netherlands and the US.

The IFRS Foundation is governed by a Board of 22 Trustees, who together are responsible for general oversight and appointments to the IASB.

The composition of Board of Trustees provides a balanced representation of geographical background and skills. Of the current 21 Trustees, 13 have a background that is predominantly in public service, while eight originate from the private sector.

One of the most important objectives of this governance arrangement was to guarantee an independent but accountable IASB as the global standard setter.

As described previously, accounting standards that lack sufficient rigour and discipline can provide opportunities for misinformation.

If financial reports are to offer unbiased and reliable information, then the accounting standards on which they are based must be developed in an independent setting, protected from undue commercial influence.

The following arrangements are in place to foster the independence of the IASB:

- The full-time members of the IASB are prohibited from having any side activities or functions that might pose a conflict of interest. They cannot fulfil any functions in private business, represent business organisations or have any undisclosed financial interests that may call into question the independence of their decision-making. At present, we have no part-time members, but were they to be appointed, their independence would be strictly vetted by the Trustees. In practice, the IASB's independence requirements are not different from (or even stricter than) those of most public authorities. Of the currently 14 IASB members, six have a background in public service.
- The Trustees appoint the members of the IASB according to a rigorous vetting process and provide oversight of the management of the IFRS Foundation and its finances. The Trustees also provide oversight of the due process of the standard-setting, but they are not able to influence the content of the Standards. Moreover, Trustees abide by strict conflict of interest rules, provide an annual declaration of interests and must recuse themselves of any discussion where a conflict of interest may occur. All the Trustees are required by the Constitution to act in the public interest in all matters. The Trustees are nominated for appointment by the Monitoring Board after a demanding vetting process.
- The governance of the IASB is completed by the Monitoring Board, which was established in 2009 following a major public consultation. The Monitoring Board is a group of capital market authorities, principally securities regulators. It provides the IFRS Foundation with a formal accountability mechanism to public authorities.

**Accounting standards that lack sufficient rigour and discipline can provide opportunities for misinformation.**

The principal responsibilities of the Monitoring Board are to:

- (i) participate in the nomination process of Trustees and approve their appointments;
- (ii) provide input on selecting the IASB Chair;
- (iii) review the Trustee arrangements for financing the IASB;
- (iv) review the Trustees' oversight of the IASB's standard-setting process, in particular with respect to its due process arrangements;
- (v) confer with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments that are pertinent to the IFRS Foundation's oversight of the IASB; and
- (vi) refer matters of broad public interest related to financial reporting for consideration by the IASB through the IFRS Foundation.

With the establishment of the Monitoring Board, the IFRS Foundation acquired a three-tier structure, with a top layer of public oversight. The Monitoring Board also has the right to review the financing arrangements of the IASB and the due process arrangements.

Consequently, although the IFRS Foundation remains a private organisation, a clear public oversight layer has been established.

The current members of the Monitoring Board are representatives of the Board and the Growth and Emerging Markets Committee of IOSCO, the European Commission, the Financial Services Agency of Japan, the US Securities and Exchange Commission, the Brazilian Securities Commission and the Financial Services Commission of Korea. The Basel Committee on Banking Supervision participates in the Monitoring Board as an observer.

## 4. Governance, finance and accountability *continued*

Both the composition of the IASB and that of the Trustees seek to be representative of the world's capital markets and to ensure a broad international base. The geographical composition of the Trustees is currently: six each from Europe, Asia/Oceania and North America, one each from Africa and South America and two 'at large' positions. This distribution is subject to oversight by the Monitoring Board, which also approves the appointment of the Trustees. The composition of the IASB shows a similar geographical distribution: four members each from Asia/Oceania, Europe and North America, one each from Africa and South America and two 'at large'. Currently two Board vacancies are not filled, pending the *Review of Structure and Effectiveness*.

In the previous strategy review of the IFRS Foundation, and the Monitoring Board's separate review of our governance, the vast majority of respondents considered this to be an appropriate structure. Nevertheless, in the current *Review of Structure and Effectiveness* we are again asking our constituents if they have suggestions for further improvements in the functioning of our governance arrangements.

### **b. Ultimate sovereignty remains with adopting jurisdictions**

It is important to note that the IASB is not a government agency empowered to promulgate rules or regulations that have the force of law. In all jurisdictions that use IFRS, those Standards only become public law by deliberate act of national or (in the case of the EU) supranational public authorities. Adoption of IFRS takes place on an entirely voluntary basis, so there is no surrender of sovereignty in accounting.

Many jurisdictions have endorsement procedures for the adoption of individual Standards. Of all IFRS jurisdictions, the European Union has the most stringent endorsement procedure in place. The existence of endorsement procedures is not a paper tiger. The IASB is fully aware that if it does not take the views of its constituents sufficiently into account, there will be an increased risk of a jurisdiction not fully applying new IFRS Standards. The fact that most jurisdictions chose to adopt IFRS without modifications is partially due to the responsiveness of the IASB to suggestions and concerns of its constituents.

In summary, we do not believe it is correct to characterise the IFRS Foundation and the IASB as self-regulatory bodies. As a whole, our governance contains a mix of public and private elements. While parts of its governance are privately organised, the IFRS Foundation is firmly embedded in a public environment.

### **c. Funding**

Questions are sometimes asked about the funding of the IFRS Foundation as a possible source of conflicts of interest. While we acknowledge in the current *Review of Structure and Effectiveness* that the way in which our funding arrangements function can be further improved, we believe they have in practice not been a source of conflicts of interest.

Over the years, the IFRS Foundation has sought to significantly increase its reliance on publicly sponsored contributions.<sup>13</sup>

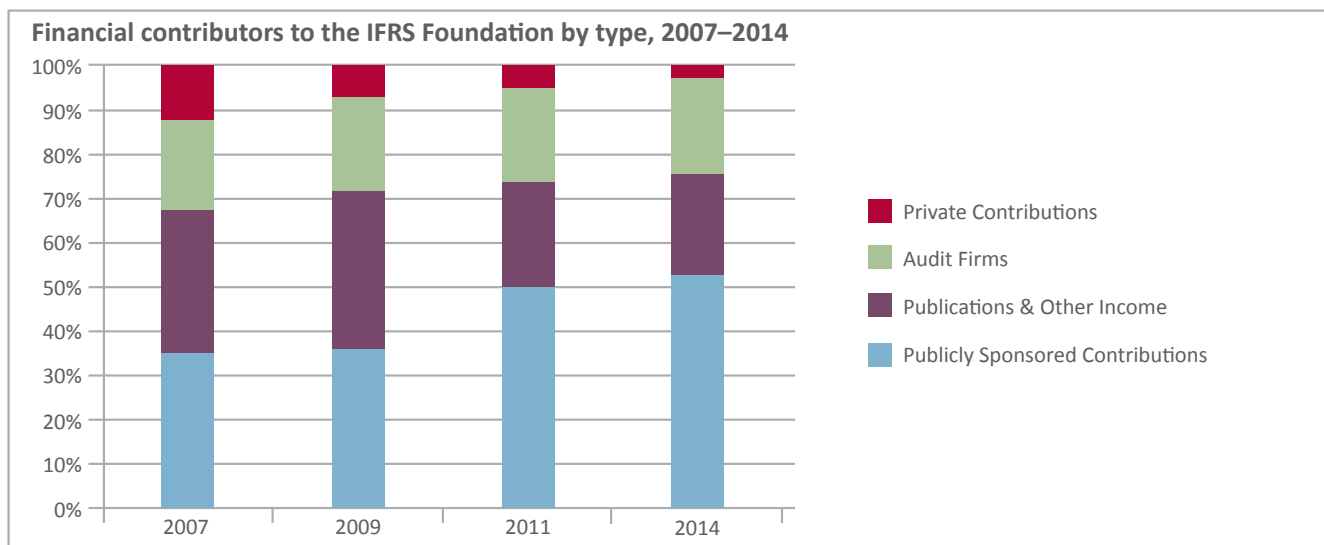
As can be seen in the diagram overleaf, this strategy has been largely successful, with an increase in publicly sponsored contributions from 34 per cent to 52 per cent, more than offsetting a decrease in income from publications and licences.

While total private contributions dropped from 32 per cent to 25 per cent, the contributions from the audit firms are still quite significant – leading some to express concerns about the independence of the IASB from those firms.

The first thing to note is that it is arguably very reasonable for the audit firms to contribute to the IFRS Foundation. Compared to the past, when they had to work with a myriad of national accounting standards around the world, the spread of IFRS presents an immense cost saving to the audit firms in terms of development and maintenance of accounting expertise. But even if it is reasonable that the audit firms should contribute in exchange for the benefits they derive from IFRS, it can be argued that the fact that this contribution is made on a voluntary basis could make the IASB potentially vulnerable to pressure. While the Trustees are aware of and acknowledge this concern, in their view it is one of perception rather than reality.

Because the audit firms' clients work with IFRS Standards, the firms have a significant professional interest in IFRS. Some might suspect the firms to have an interest in making IFRS as complicated as possible so as to generate auditing fees. What we witness in practice, however, is that the principal private interest of the audit firms runs parallel with the public interest of making the Standards clear and auditable.





While the contributions from the audit firms seem intrinsically reasonable and do not pose material conflicts of interest to the IASB, some may argue that even the perception of conflicts of interest can raise concerns. In the *Review of Structure and Effectiveness* we ask whether our constituents have suggestions as to how the funding model might be strengthened.

#### d. Due process

The independence of the IASB is complemented by an elaborate system of accountability that exceeds that of most other international bodies. The IFRS Foundation has developed a very thorough *Due Process Handbook* for the IASB to follow in developing new and amended Standards. That handbook requires the IASB to operate in line with three main principles: transparency, full and fair consultation and accountability. Among the main provisions are that all Board papers are available from our website and all standard-setting meetings are held in public and can be observed through the Internet.

The IASB welcomes comment letters from individuals as well as private and public bodies. Feedback received is weighted based on the merit of the ideas presented, rather than the perceived importance of the submitter. Every round of public consultation is accompanied by an extensive programme of outreach activities, including public round tables and online webcasts, as well as both group and one-to-one meetings with interested parties. The IASB also consults extensively with its various advisory bodies, including the IFRS Advisory Council, the Accounting Standards Advisory Forum, the Capital Markets Advisory Committee, the Global Preparers Forum, the IASB’s Emerging Economies Group as well as other project-specific advisory bodies.

In our public consultation, we try to ensure that we get balanced feedback from all relevant parties. Generally, we have no problem getting feedback from companies, because they have a huge interest in our Standards, and they have the resources and technical expertise to write comment letters.

For others, finding resources and technical knowledge can be more difficult. We therefore spend a great deal of time ensuring that the non-technical audience can also participate in the development of IFRS. Whenever we publish major proposals we also produce high level ‘snapshot’ summaries, written for a general business audience. These are accompanied by a comprehensive programme of outreach activities, all designed to allow others, such as investors, policymakers and the public at large to better understand our work and to be able to comment on the general principles of what we propose.

All comment letters are posted with equal prominence on the project section of the IASB website, while the IASB’s consideration of such feedback is subject to a full audit trail. Each Standard issued includes an accompanying Basis for Conclusions, which sets out the rationale for the IASB’s decisions. At the end of the project, the IASB also normally publishes a Feedback Statement that explains how it responded to the broad themes received throughout the consultation.

Finally, the entire due process is then subject to a comprehensive, end-to-end life cycle review by the Trustees’ Due Process Oversight Committee before the final Standard can be issued by the IASB. Concerns about alleged due process infractions are extremely rare.

## 5. Afterword

In this document we have tried to give a nuanced view of our governance and the nature and quality of IFRS. We recognise that all is not yet perfect; our Standards can be improved further and in our *Review of Structure and Effectiveness* we are asking open questions on issues such as funding and our governance arrangements.

However, the fact remains that more than 80 per cent of countries have voluntarily chosen to adopt our Standards. The fact that so many of those jurisdictions have resisted the temptation to modify IFRS is most likely due to the following reasons:

First of all, almost all jurisdictions are convinced of the benefits of having a single set of accounting standards around the world. Many respondents in the European Commission's evaluation of the IAS regulation confirmed this view. For many emerging economies, the adoption of IFRS has been a very cost-efficient way to enhance the credibility of their capital markets. Our constituents know that as soon as individual jurisdictions start tinkering with IFRS, these benefits would evaporate.

Most jurisdictions are fully aware that even small changes to the Standards may lead to inconsistencies or unintended consequences.

Secondly, while we acknowledge that accounting is not an exact science, accounting standards are much less political in nature than other economic standards, which is probably another reason why most jurisdictions feel comfortable entrusting this task to an international standard-setter.

Thirdly, IFRS Standards are recognised to be of high quality, although we acknowledge that further improvements are always possible.

Finally, most jurisdictions draw a great deal of comfort from the combination of their own adoption or endorsement procedures and our inclusive and transparent system of due process. This ensures that our constituents are properly engaged in our standard-setting process. We believe we are an organisation that listens carefully to its stakeholders and we remain committed to continue doing so in the future.

1 <http://www.ifrs.org/Alerts/PressRelease/Pages/Trustees-seek-public-input-on-review-of-the-structure-and-effectiveness-of-the-IFRS-Foundation.aspx>

2 <http://www.ifrs.org/About-us/Pages/IFRS-Foundation-and-IASB.aspx>

3 For a summary of such research, see Tarca (2012) *The Case for Global Accounting Standards – Arguments and Evidence*, [www.ifrs.org](http://www.ifrs.org)

4 See “Key Standards for Sound Financial Systems”, [www.financialstabilityboard.org](http://www.financialstabilityboard.org)

5 [http://www.ifrs.org/DPOC/Documents/2013/Due\\_Process\\_Handbook\\_Resupply\\_28\\_Feb\\_2013\\_WEBSITE.pdf](http://www.ifrs.org/DPOC/Documents/2013/Due_Process_Handbook_Resupply_28_Feb_2013_WEBSITE.pdf)

6 *The European Union's role in International Economic Fora*, Paper 7: IASB, p.37. European Parliament, Directorate General for Internal Policies, Policy Department A: Economic and Scientific Policy

7 *The European Union's role in International Economic Fora*, Paper 7: IASB, p.37. European Parliament, Directorate General for Internal Policies, Policy Department A: Economic and Scientific Policy

8 See Nobes (2015) *Is the IASB really hell-bent on introducing fair value?*, <http://pwc.blogs.com/ifrs/2015/09/is-the-iasb-really-hell-bent-on-introducing-fair-value.html>. It is a persistent myth that the IASB would have a strong preference for market-based fair value accounting. The fact is that for most companies, especially in the non-financial sectors of the economy, historical cost accounting is still dominant. Even for traditional banking business, such as lending activities, cost-based measurement is prevalent. IFRS prescribes fair value accounting judiciously, usually for activities that take place in active markets and for instruments, such as derivatives, that are highly sensitive to market conditions. For these instruments, historical cost does not provide meaningful information. In the Exposure Draft of the *Conceptual Framework*, the IASB reaffirms that it does not see fair value as the default measurement model.

9 *Why inconsistent reporting of exceptional items can cloud underlying profitability at non-financial FTSE100 companies*, Standard and Poor's (2014), [www.standardandpoors.com/ratingsdirect](http://www.standardandpoors.com/ratingsdirect)

10 While an alleged lack of prudence in IFRS is sometimes associated with the financial crisis, it is important to note that the reference to prudence was only removed well after the outbreak of the crisis.

11 For example, see: Institut Messine (2015), “L'excès d'information financière nuit-il à l'information financière?”, [www.institutmessine.fr](http://www.institutmessine.fr)

12 European Commission (2015), *Evaluation of regulation on the application of International Accounting Standards*, [www.europa.eu](http://www.europa.eu)

13 Publicly sponsored contributions can vary from jurisdiction to jurisdiction. What they have in common is that they are arrangements initiated by public authorities and that contributions are collected at a central level. After collection at the central level, an annual, centralised, contribution is made to the IFRS Foundation, so that in such arrangements there is no direct financial link between the IFRS Foundation and private parties that participate in the publicly sponsored collection scheme.