Australian Accounting Standard **AAS 35**
August 1998

Self-Generating and Regenerating Assets

Prepared by the
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Defined words appear in *italics* the first time they appear in a section. The definitions are in Section 10. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard

(a) applies to all self-generating and regenerating assets (SGARAs) (including consumable-SGARAs with short-term production cycles [such as wheat crops] and bearer-SGARAs with long-term production cycles [such as apple trees in an orchard]) other than those held for "non-commercial" purposes

(b) requires SGARAs to be measured at net market value

(c) requires increments (decrements) in the net market values of SGARAs to be recognised as revenues (expenses) in the profit and loss or other operating statement in the reporting period in which the increments (decrements) occur, and the net market value of non-living produce extracted from SGARAs (less the costs of extraction) determined immediately after it becomes non-living to be recognised as revenues in the profit and loss or other operating statement in the reporting period in which extraction occurs

(d) deems the cost of non-living produce of SGARAs to be the net market value of the produce immediately after it becomes non-living, for the purpose of applying Australian Accounting Standard AAS 2 "Inventories"

(e) requires SGARAs to be presented separately in the statement of financial position

(f) requires specific disclosures in relation to SGARAs.

AUSTRALIAN ACCOUNTING STANDARD

AAS 35 "SELF-GENERATING AND REGENERATING ASSETS"

1 Application

1.1 This Standard applies to:

(a) *general purpose financial reports* of each *reporting entity* to which Accounting Standards operative under the Corporations Law do not apply

(b) financial reports that are held out to be general purpose financial reports by an *entity* which is not a reporting entity, and to which Accounting Standards operative under the Corporations Law do not apply.

1.1.1 Accounting Standards operative under the Corporations Law apply to companies and to other entities required by legislation, ministerial directive or other government authority to apply such Standards. Reporting entities which are not required to apply Accounting Standards operative under the Corporations Law are required to apply this Standard.

1.2 In the event of a conflict between this Standard and any other Standard, the requirements of this Standard prevail.

1.2.1 Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets" does not apply to *self-generating and regenerating assets (SGARAs)* that are *non-current assets* to which this Standard applies.

2 Scope

2.1 This Standard applies to:

(a) *SGARAs* other than SGARAs that are held for the primary purpose of aesthetics, heritage, ecology, the environment, or recreation

(b) exclusive rights obtained through leases or similar types of arrangements over specific SGARAs, as if those rights are themselves SGARAs.

2.1.1 This Standard applies to SGARAs that are held primarily for profit, for example, SGARAs held primarily for sale in their own right or held to generate produce for sale. Although the principles in this Standard may be appropriate for SGARAs that are not held primarily for such purposes (for example, SGARAs that are a component of a national park, public botanical garden or public recreational park), measurement techniques available to the *entity* may not be adequately developed to *reliably* measure the *net market value* of those *assets* separately. For example, techniques may not be adequately developed to reliably measure the net market value of SGARAs in national parks separately from the non-biological assets (such as land) to which they are attached.

2.1.2 Exclusive rights over specific SGARAs (such as bloodstock) may be granted through leasing arrangements. Australian Accounting Standard AAS 17 "Accounting for Leases" does not apply to lease agreements concerning rights to exploit natural resources (which include SGARAs). The net market value of rights over a SGARA changes as a result of biological change in the underlying SGARA, in the same way that the net market value of the underlying SGARA changes. Accordingly, this Standard applies to arrangements that grant exclusive rights over a specific SGARA, and requires those rights to be accounted for in a manner consistent with the treatment of SGARAs. Arrangements over SGARAs that do not grant exclusive rights over specific SGARAs, such as fishing quotas or licences, are excluded from the scope of this Standard.

2.1.3 This Standard does not specify how to account for commodity-based contracts entered into to hedge the price of future sales involving the physical delivery of SGARAs or the non-living produce expected to be extracted from SGARAs. Such contracts may commit the entity to physically delivering SGARAs or the non-living produce of SGARAs to a buyer. In order to reflect the changes in the value of the hedge contract in the same periods in which the changes in value of the underlying SGARAs are reflected, it would be necessary to measure the hedge contract at net market value and *recognise* increments and decrements in the net market value as *revenues* or *expenses* in the profit and loss or other operating statement for the reporting period in which the increments or decrements occur.

2.1.4 The standards specified in this Standard apply to the financial report where information resulting from their application is material, in accordance with Australian Accounting Standard AAS 5 "Materiality".

3 Operative Date

3.1 **This Standard applies to reporting periods ending on or after 30 June 2000.**

3.2 **This Standard may be applied to reporting periods ending before 30 June 2000.**

4 Purpose of Standard

4.1 **The purpose of this Standard is to prescribe that:**

(a) ***SGARAs*** **be measured at** ***net market values***

(b) **increments and decrements in the net market values of SGARAs be** ***recognised*** **in the profit and loss or other operating statement in the reporting periods in which the increments or decrements occur**

(c) **the net market value of the non-living produce extracted from SGARAs (less the costs of extraction) determined immediately after it becomes non-living be recognised in the profit and loss or other operating statement in the reporting periods in which the extraction occurs**

(d) **the cost of the non-living produce of SGARAs is deemed to be the net market value of the non-living produce immediately after it becomes non-living**

(e) **specific disclosures be made in respect of SGARAs.**

5 Accounting for SGARAs

Recognition of SGARAs

5.1 **A** ***SGARA*** **must be** ***recognised*** **when, and only when:**

(a) **it is *probable* that the future economic benefits embodied in the SGARA will eventuate**

(b) **the SGARA possesses a value that can be measured *reliably*.**

5.1.1 Statement of Accounting Concepts SAC 4 "Definition and Recognition of the Elements of Financial Statements" explains the recognition criteria for *assets*. It would be rare that SGARAs held primarily for sale or otherwise to generate profit could not be measured reliably.

Basis of Measurement

5.2 **SGARAs must be measured at their *net market value* as at each *reporting date*.**

5.2.1 SGARAs are different from non-living assets because they change biological form over their lives through growth and other means, resulting in changes in future economic benefits. The future economic benefits embodied in SGARAs may also change in the absence of changes in biological form, because their prices change. Measuring a SGARA at its current value ensures that the effect of both biological changes and price changes are recognised in financial reports.

5.2.2 This Standard specifies net market value as the current value attribute for SGARAs. The net market value of a SGARA is defined in paragraph 10.1 as the amount which could be expected to be received from the disposal of the SGARA in an active and liquid market after deducting costs expected to be incurred in realising the proceeds of such a disposal. Net market value is the net proceeds from disposal which could be expected to be received in the ordinary course of business, rather than the net proceeds from disposal expected from a distress sale.

5.2.3 Measuring SGARAs at net market value permits comparisons of SGARAs having substantially the same characteristics, regardless of their purpose, and when, by whom and how they were acquired. It also provides a relevant basis for assessing stewardship of the *entity's* management or governing body by indicating the effects of the decisions to buy, sell or hold SGARAs.

5.2.4 Where they exist, current prices of SGARAs (subject to making allowance for the deduction of transaction costs) in active and liquid markets are the best basis for determining their net market value. Prices in active and liquid markets result from an assessment by market participants of the present value of an asset's expected future cash flows. Therefore, they avoid the need to base measurements on the intentions of the management or governing body, or on estimates, as would be necessary if net present value were to be used in preference. Measures that are based on prices in active and liquid markets provide more consistent measurements between entities and between SGARAs of the same entity, while their use results in the *carrying amounts* of SGARAs being more *relevant* to users of financial reports.

5.2.5 Market prices observed in active and liquid markets often will be available for SGARAs at all stages of their maturity. These prices are used as a basis for measuring the net market value of SGARAs regardless of whether the entity intends to sell the SGARAs in their current form. This is because prices observed in active and liquid markets reflect market participants' assessments of all known potential uses for the SGARAs. For example, the market price of a calf held for the purpose of beef production is determined by observing the market price for calves in a market where potential buyers may have different intentions in relation to calves. That market price, expressed as a "farm gate price" or "in situ price", captures the condition and location of the calf. Deducting from that price expected point-of-sale costs (such as saleyard commissions) results in a net market value which shows the net proceeds that would result from disposing of the calf. This information is useful to users interested in assessing the future economic benefits that could currently be obtained from the calf.

5.3 Where there is no active and liquid market for a SGARA, the best indicator of the net amount which could be received from the disposal of the SGARA in an active and liquid market must be used to measure the SGARA, taking into account all relevant information.

5.3.1 Market prices may not be observable for certain SGARAs, for example newly planted trees in a forest. Furthermore, although market prices may be observable, they may be affected by the fact that the market is not active and liquid. For example, there may be infrequent activity in the market, the market may not be well established, small volumes may be traded relative to the asset to be valued, access to the market may be limited, or the market may be influenced by one participant or a limited number of participants.

5.3.2 In circumstances where a current market price in an active and liquid market is not observable, the best indicator of that price, net of selling costs, is identified. Identifying the best (that is, the most relevant and reliable) indicator (for example, net present value or historical cost) entails the exercise of judgement, having regard to the circumstances. It is unlikely that any one indicator is the best indicator of current net market price in an active and liquid market in all circumstances. In some circumstances one measure may be more relevant but less reliable than another measure, and in other circumstances that same measure may be less relevant but more reliable than the other. Depending on the circumstances, one of the following measures may represent the best balance between the often conflicting qualitative characteristics of relevance and reliability, and be the best indicator of net market price in an active and liquid market (and therefore the best basis for determining net market value):

(a) The most recent net market price of the same or similar assets. For example, when current prices in active and liquid markets are unavailable, the price of the most recent transaction involving similar assets may provide the best basis for determining the net market value, provided that there has not been a significant change in economic circumstances between the date at which the market price was observed and the reporting date.

(b) The net market value of related assets. For example:

    (i) The net market value of an apple orchard (which includes assets other than SGARAs, such as land and buildings) could be based on a market price observed in an active and liquid market for apple orchards. In that circumstance, the net market value of the apple trees could be ascertained by allocating on a reasonable basis the total net market value of the orchard between the SGARAs and the non-SGARAs that comprise the orchard. This means that the net market value of the SGARAs does not include any value that is attributable to the non-SGARAs (and vice versa). For example, the net market value of non-SGARAs could be deducted from the total net market value of the orchard. In that case, the net market value of the non-SGARAs reflects the highest and best use of the non-SGARAs. If the net market value of the non-SGARAs equals or exceeds the net market value of the orchard, the net market value of the SGARAs is nil.

(ii) The net market value of apple trees producing non-standard varieties may be based on current market prices observed in active and liquid markets for apple trees producing standard varieties and which are similar in other respects.

(iii) Market prices of the non-living produce of trees in a mature hardwood forest (that is, the current prices of hardwood) may be observed in an active and liquid market and used as a basis for determining the net market value of a mature hardwood forest. The observed market price for the currently available non-living produce of trees in an immature hardwood forest (pulp wood) is unlikely to be the best basis for determining the net market value of the trees in the forest that will be cultivated for hardwood. However, where the pulp wood price results in a value that is greater than the value determined using net present value or other techniques, the value that is based on the pulp wood price is likely to be the best basis for determining the net market value of the trees.

(c) The net present value of cash flows expected to be generated by the SGARAs discounted at a current market-determined rate which reflects the risks associated with those assets. The future cash inflows to the entity from the assets or their produce, and related cash outflows (excluding any outflows for financing the assets and taxation) are estimated and discounted to their present value. Related cash outflows do not include outflows for re-establishing a SGARA after harvest (for example, the costs of replanting trees in a native forest after harvest) because those outflows are related to future SGARAs and not the existing SGARAs. The discount rate used to discount the cash flows needs to be consistent with the measurement of the cash flows to be discounted. For example, nominal discount rates would be applied to cash flows that are expressed in nominal terms.

The entity may enter into a contract to sell its SGARAs, or the non-living produce expected to be extracted from its SGARAs, at a future date. As at the reporting date, the SGARAs may not have an observable price in an active and liquid market but the currently expected market price of the SGARAs, or the produce, at the contracted date for delivery may be reliably estimated. Where, in those circumstances, the contract price differs from the currently expected market price of the SGARAs, or the produce, the SGARAs' net present value (determined using the contracted price as an expected cash inflow) would not be the best basis for determining the net market value of the SGARAs.

(d) Cost. For example, the net market value of SGARAs may be based on cost where:

(i) little biological change has taken place since the costs were incurred and there is no evidence from other indicators of net market value that cost is not the best indicator of net market value (for example, autumn-sown annual crops of wheat or maize for entities with a reporting date in winter, or seedlings planted immediately prior to reporting date)

(ii) the uncertainties associated with a SGARA render the assumptions that need to be made to determine other indicators of the SGARA's net market value so unreliable that, on balance, cost is more relevant and reliable than any other indicator (for example, partially-grown SGARAs with short-term production cycles where the time between incurring costs and determining net market value is short, such as cotton crops shortly after planting, for which assumptions about yield and market prices cannot be made reliably).

Recognition of Revenues and Expenses

5.4 Any increments or decrements in the net market values of SGARAs must be recognised as *revenues* or *expenses* in the profit and loss or other operating statement for the reporting period in which the increments or decrements occur.

5.5 Any difference between the net market value of non-living produce extracted from SGARAs and the costs of extraction, as at the date of extraction, must be recognised as revenues or expenses in the profit and loss or other operating statement for the reporting period in which the non-living produce is extracted.

5.5.1 Revenue is typically realised from a SGARA by either selling the SGARA or extracting non-living produce from the SGARA and selling that produce. The requirement in paragraph 5.4 to recognise increases or decreases in net market values of SGARAs during the reporting period as revenues or expenses means that no gains or losses would arise on the disposal of SGARAs. In concept, SGARAs are revalued to net market value immediately prior to disposal (being equal to the net disposal proceeds), the increases or decreases in net market values are recognised as revenues or expenses, and no gains or losses result. Therefore, proceeds from the sale of SGARAs are not recognised as revenues.

5.5.2 Non-living produce may be extracted from a consumable-SGARA or from a bearer-SGARA. A consumable-SGARA is one where the extraction of the non-living produce means that the SGARA no longer exists (for example, cattle that are slaughtered). A bearer-SGARA is one where the non-living produce is extracted and the SGARA remains (for example, an apple tree). A bearer-SGARA may also produce living assets (which themselves may be consumable- or bearer-SGARAs) the net market value of which gives rise to revenue in the reporting period in which the living produce becomes a separate SGARA. While the produce is attached to the SGARA it is part of the SGARA and therefore is not required to be accounted for separately from the SGARA. Extraction of non-living or living produce from a SGARA typically results in a reduction in the net market value of the SGARA. The reduction in net market value is recognised as an expense in accordance with paragraph 5.4. Paragraph 5.5 requires any net market value of the non-living produce over and above the costs of extraction (such as picking costs, shearing costs and slaughtering costs) to be recognised as a revenue in the reporting period in which the produce is extracted.[1] Appendix 3 to this Standard illustrates the effect of extracting non-living produce from SGARAs and the effect of other transactions and events on the carrying amounts of SGARAs.

5.5.3 The sale of non-living produce extracted from a SGARA gives rise to revenue which is recognised in accordance with Australian Accounting Standard AAS 15 "Revenue" and the cost of sales which is recognised in accordance with Australian Accounting Standard AAS 2 "Inventories". The effect of paragraphs 5.4 and 5.5 of this Standard and AAS 15 and AAS 2 on the revenues and expenses that arise in relation to a bearer-SGARA from which produce is extracted and subsequently sold is that:

[1] In the vast majority of cases, the net market value of the non-living produce extracted from SGARAs immediately after extraction exceeds the costs of extraction. In the rare cases where the costs of extraction exceed the net market value of the non-living produce immediately after extraction, the difference is recognised as an expense in the reporting period in which the produce is extracted.

(a) a revenue arises as the produce to be extracted from the SGARA grows while it is attached to the SGARA (reflected in an increment in the net market value of the SGARA – in accordance with paragraph 5.4)

(b) an expense arises when the produce is extracted from the SGARA (reflected in a decrement in the net market value of the SGARA that results from extracting the produce – per paragraph 5.4) at the same time a revenue arises for the net market value of the non-living produce (less the costs of extraction) at the time of extraction (in accordance with paragraph 5.5)

(c) a revenue arises when the non-living produce is sold (in accordance with AAS 15) at the same time an expense arises for the cost of *inventories* sold (in accordance with AAS 2 [see also paragraph 5.6 of this Standard]).

There is a view that the recognition of revenue as a result of the produce growing on a SGARA, as a result of extracting the produce (and therefore converting it from a SGARA to the non-living produce of a SGARA) and as a result of selling the non-living produce would cause revenue from the produce to be counted more than once. Appendix 1 illustrates a method of displaying revenues and expenses relating to SGARAs and the non-living produce extracted from SGARAs in the profit and loss or other operating statement to effectively minimise the effect of counting revenue relating to SGARAs more than once.

Accounting for the Non-Living Produce of SGARAs

5.6 The non-living produce of a SGARA must be accounted for in accordance with Australian Accounting Standard AAS 2 "Inventories". For the purposes of AAS 2, the cost of the non-living produce is deemed to be its net market value immediately after it becomes non-living. [2]

5.6.1 This Standard deems that the net market value of the non-living produce obtained from a SGARA immediately after it becomes non-living is the cost of the non-living produce. For example, the "cost" of felled logs for the purposes of AAS 2 is the net market value of the felled logs immediately after felling determined by reference to the most likely market for the felled logs. Another example is that the "cost" of fruit picked from an orchard is, for the purposes of

[2] Australian Accounting Standard AAS 2 "Inventories" will be amended to be consistent with this requirement.

AAS 2, the net market value of the fruit immediately after picking determined by reference to the most likely market for the picked fruit.

5.6.2 Consistent with AAS 2, the costs of extracting the non-living produce from SGARAs are embodied in the net market value (and thereby the deemed cost) of the non-living produce immediately after it becomes non-living. Paragraph 5.5 requires that those costs are not included in the amount recognised as revenue on extracting the produce. Costs incurred subsequent to extraction in relation to the non-living produce, are included in the cost of inventories in accordance with AAS 2.

6 Presentation

6.1 *SGARAs* must be presented separately in the statement of financial position.

6.1.1 Separate presentation of SGARAs in the statement of financial position is warranted because their "living" characteristic makes them unique. The requirement in paragraph 6.1 means that SGARAs that are attached to non-SGARAs (such as trees growing on land) are measured separately from the non-SGARAs.

7 Disclosures

7.1 The following information must be disclosed:

(a) the nature of *SGARAs* and an estimate or relevant indication of their physical quantity, separately classified between "plants" and "animals", and sub-classified as appropriate to the circumstances of the *entity*, showing separately those SGARAs over which the entity has rights that are obtained through leases or similar types of arrangements

(b) SGARAs for which the entity's use or capacity to sell is subject to restrictions imposed by regulations or other external requirements that have a significant impact on their total *net market value*. The total and restricted amounts of those SGARAs must be disclosed, together with details of the nature and extent of those restrictions

(c) **if the net market values of SGARAs are based on amounts other than market prices observed in active and liquid markets:**

   (i) **the method of determining the net market values**

   (ii) **any significant assumptions made in determining the net market values**

   (iii) **whether the net market values have been determined in accordance with an *independent valuation* or a *directors' valuation* and, where the net market values have been determined in accordance with an independent valuation, the name(s) of the firm(s) which made that valuation**

(d) **the net amount of *revenues* and *expenses recognised* in accordance with paragraph 5.4, showing separately the amount that is attributable to "plants" class, "animals" class, and each sub-class as appropriate to the circumstances of the entity. The method by which the net increment or decrement is determined must be disclosed**

(e) **the net amount of revenues and expenses recognised in accordance with paragraph 5.5, showing separately the amount that is attributable to "plants" class, "animals" class, and each sub-class as appropriate to the circumstances of the entity.**

7.1.1 Distinguishing between the fundamental classes of "plants" and "animals" is considered useful because there are differences between their economic attributes, and therefore between their associated risks and potential returns.

7.1.2 Certain restrictions may significantly affect the entity's capacity to adapt (for example, its ability to exchange restricted *assets* for cash in the short term) or its ability to generate returns on the asset. Information about restrictions affecting particular SGARAs is *relevant* to assessments of the performance, financial position or financing and investing activities of the entity.

7.1.3 The determination of net market value may be based on assumptions about future prices for the produce of SGARAs, future costs, foreign currency exchange rates, the length of time estimated until the

SGARAs give rise to cash flows, and discount rates. This Standard does not require disclosure of information on the sensitivity of the recognised amounts to changes in the underlying assumptions. However, entities are encouraged to report such information as it would be useful to users of financial reports for assessing the effect of the assumptions made in measuring the SGARAs' *carrying amounts*.

7.1.4 The net increment or decrement in the net market values of SGARAs recognised as revenues or expenses will be affected by the treatment of costs incurred to maintain or enhance the SGARAs (whether recognised immediately as an expense or included in the carrying amount of SGARAs). The result/profit or loss recognised in a reporting period that is attributable to SGARAs will not be affected by the treatment of those costs because the effect on expenses arising from the treatment of those costs will be offset by the effect on revenues, as a result of paragraph 5.4. This Standard does not prescribe how those costs are to be treated in accounting for SGARAs on a net market value basis, but requires disclosure of how the costs are treated.

7.1.5 Appendix 1 to this Standard illustrates a *general purpose financial report* of an entity that controls bearer-SGARAs (in particular, a hazelnut grove). Appendix 2 illustrates a possible format for disclosures by a forestry entity that are required by paragraph 7.1 of this Standard.

8 Comparative Information

8.1 Information for the preceding corresponding reporting period which corresponds to the disclosures specified for the current reporting period must be disclosed, except in respect of the reporting period to which this Standard is first applied.

9 Transitional Provisions

9.1 Where the accounting policies required by this Standard are not already being applied as at the beginning of the reporting period to which this Standard is first applied, they must be applied as at that date. Where this gives rise to initial adjustments which would otherwise be *recognised* in the profit and loss or other operating statement, the net amount of those adjustments, including any adjustments to deferred income tax balances, must, in accordance with Australian Accounting Standard

AAS 1 "Profit and Loss or other Operating Statements", be adjusted against retained profits (surplus) or accumulated losses (deficiency) as at the beginning of the reporting period in which this Standard is first applied.

10 Definitions

10.1 In this Standard:

assets **means future economic benefits controlled by the *entity* as a result of past transactions or other past events**

carrying amount **means, in relation to an *asset* or a *liability*, the amount at which the asset or liability is recorded in the accounting records as at a particular date**

current **means in the ordinary course of business, would be consumed or converted into cash, or would be due and payable, within twelve months after the end of the reporting period**

directors' valuation **means a valuation that is not an *independent valuation***

economic entity **means a group of entities comprising the *parent entity* and each of its *subsidiaries***

entity **means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives**

equity **means the residual interest in the assets of the entity after deduction of its liabilities**

expenses **means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in *equity* during the reporting period**

general purpose financial report **means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports**

tailored so as to satisfy, specifically, all of their information needs

independent valuation **means a valuation made by a firm:**

(a) which is an expert in relation to valuations of that type of asset; and

(b) whose pecuniary or other interests could not be regarded as affecting the firm's ability to give an unbiased valuation

inventories **means goods, other property and services:**

(a) held for sale in the ordinary course of business; or

(b) in the process of production, preparation or conversion for such sale; or

(c) in the form of materials or supplies to be consumed in the production of goods or services available for sale

excluding depreciable assets, as defined in Australian Accounting Standard AAS 4 "Depreciation"

liabilities **means future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events**

net market value **means the amount which could be expected to be received from the disposal of an asset in an active and liquid market after deducting costs expected to be incurred in realising the proceeds of such a disposal**

non-current **means other than** ***current***

parent entity **means an entity which controls another entity**

probable **means, in relation to a future event, that it is more likely than less likely that the event will occur**

recognised **means reported on, or incorporated in amounts reported on, the face of the profit and loss or other operating statement or the statement of financial position (whether or not further disclosure of the item is made in the notes)**

relevance **means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:**

(a) helping them form predictions about the outcomes of past, present or future events; or

(b) confirming or correcting their past evaluations

and which enables users to assess the discharge of accountability by the management or governing body of the entity

reliability **means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent**

reporting date **means the end of the reporting period to which the financial report relates**

reporting entity **means an entity (including an** ***economic entity*****) in respect of which it is reasonable to expect the existence of users dependent on** ***general purpose financial reports*** **for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources**

revenues **means the inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period**

self-generating and regenerating asset (SGARA) **means a non-human living asset**

subsidiary **means an entity which is controlled by a parent entity.**

SGARAs

10.1.1 The definition of *SGARA* determines the scope of this Standard. The words "living asset" are intended to apply to all living assets, regardless of the length of the production cycle, or how they were created. For example, SGARAs that arise from the use of biotechnology would be treated in the same way as if they had been created naturally. A living asset becomes non-living when biological change can no longer take place. The fact that the produce from a SGARA continues to undergo change after it is extracted from a SGARA does not mean that the produce is a SGARA. For example, wine is not a SGARA because it does not undergo biological change, and hence is not living, although it undergoes chemical change through a maturation process.

10.1.2 The phrase "non-human" is intended to distinguish assets that are plants or animals from human resources. Similarly, human zygotes and embryos are not regarded as SGARAs for the purposes of this Standard.

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards

No corresponding accounting standard has been issued by the International Accounting Standards Committee.

Conformity with New Zealand Accounting Standards

No corresponding accounting standard has been issued in New Zealand.

APPENDIX 1

EXTRACTS FROM AN EXAMPLE FINANCIAL REPORT OF AN ENTITY THAT CONTROLS A HAZELNUT GROVE

This Appendix forms part of the commentary and is provided for illustrative purposes only. It does not illustrate every possible disclosure that may be appropriate to the circumstances of an entity that controls a bearer-SGARA. Other methods of presentation may comply with the accounting standards set out in this Standard.

The following illustrates a general purpose financial report of an entity whose sole activity is managing a hazelnut grove.

It is assumed that the trees are planted in 1997 and begin producing saleable nuts in 2000. The trees are measured at historical cost as at 30 June 1997 because historical cost is regarded as the best basis for determining net market value in the circumstances. After 1997, the trees are measured at each reporting date using net present value techniques because net present value is regarded as the best basis for determining net market value in the circumstances. Eighty per cent of the hazelnuts are sold immediately after being picked, and selling costs are assumed to be immaterial. Twenty per cent of the picked hazelnuts are recognised as inventories as at the reporting date.

Hazelnut Entity[3]

Operating Statement
for the year ended 30 June 2000

	Note	2000 $	1999 $
Revenues from sale of hazelnuts		4,284	0
Deemed cost of hazelnuts sold		(4,284)	0
NET REVENUES FROM SALE OF HAZELNUTS		0	0
Net increment in net market value of hazelnut trees	1(c)	41,250	36,293
Net market value of hazelnuts picked during the reporting period	1(c)	4,091	0
NET REVENUES FROM OPERATING ACTIVITIES		45,341	36,293
OTHER OPERATING EXPENSES			
Employee expenses		(2,736)	(3,000)
Fertilizers		(12,000)	(12,178)
Operating lease expenses		(2,000)	(2,000)
Other expenses		(264)	(935)
		(17,000)	(18,113)
PROFIT FROM OPERATING ACTIVITIES		28,341	18,180
Borrowing expenses		(2,517)	(1,822)
PROFIT FROM ORDINARY ACTIVITIES		25,824	16,358
Income Tax Expense		(9,297)	(5,889)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		16,527	10,469
Retained profits at the beginning of the reporting period		19,116	8,647
Retained profits at the end of the reporting period		35,643	19,116

3 The journal entries that give rise to particular amounts reported in the following financial statements are contained in Appendix 3.

Hazelnut Entity

Statement of Financial Position
as at 30 June 2000

	Note	2000 $	1999 $
CURRENT ASSETS			
Cash		873	921
Inventories (picked hazelnuts)		1,071	0
TOTAL CURRENT ASSETS		1,944	921
NON-CURRENT ASSETS			
Land	1(b)	20,000	20,000
Hazelnut trees	1(b),2	142,470	101,220
TOTAL NON-CURRENT ASSETS		162,470	121,220
TOTAL ASSETS		164,414	122,141
CURRENT LIABILITIES			
Interest-bearing liability (bank overdraft)		49,321	32,872
TOTAL CURRENT LIABILITIES		49,321	32,872
NON-CURRENT LIABILITIES			
Deferred Tax Liability	3	20,050	10,753
Interest-bearing liability		32,000	32,000
TOTAL NON-CURRENT LIABILITIES		52,050	42,753
TOTAL LIABILITIES		101,371	75,625
NET ASSETS		63,043	46,516
EQUITY			
Contributed Capital		27,400	27,400
Retained Profits		35,643	19,116
TOTAL EQUITY		63,043	46,516

Hazelnut Entity

Statement of Cash Flows
for the year ended 30 June 2000

	Note	2000 $	1999 $
Cash flows from operating activities			
Proceeds from sale of hazelnuts		4,284	0
Payments to suppliers and contractors		(18,264)	(18,113)
Interest and other costs of finance paid		(2,517)	(1,822)
Net cash used in operating activities	4	(16,497)	(19,935)
Net increase (decrease) in cash held		(16,497)	(19,935)
Cash held at the beginning of the reporting period		(31,951)	(12,016)
Cash held at the end of the reporting period	5	(48,448)	(31,951)

Hazelnut Entity

Notes to the Financial Statements for the year ended 30 June 2000

1. Summary of Significant Accounting Policies

(a) *Compliance with Accounting Standards and other requirements*

The financial report is a general purpose financial report and has been prepared in accordance with Australian Accounting Standards and Urgent Issues Group Consensus Views. The accounting policies adopted are consistent with those of the preceding corresponding reporting period.

(b) *Basis of measurement*

The financial report is prepared in accordance with the historical cost convention, except for hazelnut trees (which are self-generating and regenerating assets), which are measured at net market value.

(c) *Method chosen to determine the net increment in the net market values of hazelnut trees recognised as revenue, and the determination of the net market value of hazelnuts picked during the reporting period recognised as revenue*[4]

The net increment in net market values of hazelnut trees recognised as revenue [$41,250 (1999 – $36,293)] is determined as:

(i) the difference between the total net market values of the trees recognised as at the beginning of the reporting period and the total net market values of trees recognised as at the reporting date [$41,250 (1999 – $36,293)]; less

(ii) costs incurred during the reporting period to acquire and plant hazelnut trees [nil (1999 – nil)].

Costs incurred in maintaining or enhancing trees are recognised as expenses when incurred. Therefore, those costs are not included in the determination of the net increment in net market values.

[4] Appendix 3 of this Standard contains journal entries that give rise to the amounts disclosed in Note 1(c).

The net market vlaue of hazelnuts picked during the year recognised as revenue [$4,091 (1999 – nil)] is determined as:

(i) the net market value of hazelnuts immediately after picking [$5,355 (1999 – nil)]; less

(ii) costs of picking [$1,264 (1999 – nil)].

2. Hazelnut Grove

	2000		**1999**	
	Number	Hectares	Number	Hectares
Hazelnut trees	2,240	4	2,240	4

Harvesting of hazelnuts occurs from February through to April each year.

The hazelnut grove is situated 2 kilometres from the Victorian township of Hoddles Creek.

The net market value of the hazelnut trees is determined as the difference between the net present value of cash flows expected to be generated by the grove discounted at a current market-determined rate which reflects the risks associated with the grove and the net market value of the land ($20,000 in 2000 and 1999) on which the trees are growing.

The net market values of the hazelnut grove, the trees and the land have been determined in accordance with an independent valuation performed at each reporting date. The valuer is Gee and Associates.

Significant assumptions made in determining the net market value of the trees are:

(a) the trees will reach maturity in 2008;

(b) the trees will be productive until 2037;

(c) the expected price of the hazelnuts is constant in real terms, based on average prices throughout the current year;

(d) the costs expected to arise throughout the life of the trees are constant in real terms, based on average costs throughout the current year;

(e) the pre-tax average real rate at which the net cash flows are discounted is 28% per annum; and

(f) inflation will continue at the current rate.

Cash flows are gross of income taxes and are expressed in real terms.

Sensitivity of the Net Market Value of the Hazelnut Trees to Changes in Significant Assumptions

		Effect on Net Market Value of the Hazelnut Trees	
	Change	**2000** **$**	**1999** **$**
Discount Rate	28% + 1%	(8,515)	(7,386)
	28% - 1%	9,301	8,120
Future Prices	+5%	10,494	8,408
	- 5%	(10,494)	(8,408)
Future Costs	+5%	(3,371)	(3,347)
	- 5%	3,371	3,347

3. Provision for Deferred Income Tax

	2000 **$**	**1999** **$**
Deferred tax liability reported in the statement of financial position as at the beginning of the reporting period	10,753	4,864
Change in deferred tax liability during the reporting period	15,666	13,882
	26,419	18,746
Deferred tax liability no longer required due to the offsetting of the change in deferred tax assets arising from the carry forward of income tax losses	(6,369)	(7,993)
Deferred tax liability recognised in the statement of financial position as at the end of the reporting period	20,050	10,753

4. Reconciliation of Net Cash provided by Operating Activities to Profit from Ordinary Activities after Income Tax Expense

	2000 $	1999 $
Profit from ordinary activities after income tax expense	16,527	10,469
Net increment in net market value of hazelnut trees recognised as revenue	(41,250)	(36,293)
Increase in inventories of nuts	(1,071)	0
Increase in deferred tax liability	9,297	5,889
Net cash provided (used) by operating activities	(16,497)	(19,935)

5. Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the reporting date as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2000 $	1999 $
Cash	873	921
Bank overdraft	(49,321)	(32,872)
Cash (bank overdraft) at the end of the reporting period	(48,448)	(31,951)

APPENDIX 2

EXTRACTS FROM AN EXAMPLE FINANCIAL REPORT OF AN ENTITY THAT CONTROLS A FOREST

This Appendix forms part of the commentary and is provided for illustrative purposes only. It demonstrates a possible format for disclosures required by paragraph 7.1 of the Standard for a forestry entity. It does not illustrate every possible disclosure that may be appropriate to the circumstances of an entity that controls a forest. Other methods of presentation may comply with the accounting standards set out in this Standard.

Notes to the Financial Statements for the year ended 30 June 19X1

1. Paragraphs 7.1 (a), (d) and (e)

Nature and an Indication of Physical Quantities of Commercial Trees in Forests[a], and Net Increment (Decrement) in Net Market Values (NMV) of Trees in Forests Recognised as Revenue

	19X1 '000 hectares	19X1 '000 m³	19X1 $'000 net change in NMV[h]	19X1 $'000 NMV of felled logs[i]	19X0 '000 hectares	19X0 '000 m³	19X0 $'000 net change in NMV	19X0 $'000 NMV of felled logs
NATIVE FORESTS								
Regrowth Eucalypt Forest[b]								
Tall Eucalypt Forest (> 40m)	200.0	19,000	4,000	0	202.0	20,500	3,500	160
Medium Eucalypt Forest (>15m & <40m)	300.0	11,000	3,000	0	303.0	11,500	2,000	0
Low Eucalypt Forest (5-15m)	50.0	700	950	0	50.0	690	980	0
	550.0	30,700	7,950	0	555.0	32,690	6,480	160
Mature Eucalypt Forest[c]								
Tall Eucalypt Forest (> 40m)	20.0	1,000	400	20	18.0	600	300	170
Medium Eucalypt Forest (>15m & < 40m)	80.0	5,000	1,700	0	77.0	4,000	1,000	0
Low Eucalypt Forest (5-15m)	20.0	600	(100)	0	20.0	600	200	0
	120.0	6,600	2,000	20	115.0	5,200	1,500	170
Native Conifer Forest (Callitris)[d]	100.0	6,000	28	0	100.0	6,000	10	0
Rainforest[e]	50.0	400	12	0	50.0	400	5	0
Other[f]	50.0	300	10	0	50.0	300	5	0
Total Native Forest Area	**870.0**	**44,000**	**10,000**	**20**	**870.0**	**44,590**	**8,000**	**330**

	19X1 '000 hectares	19X1 '000 m^3	19X1 $'000 net change in NMV[h]	19X1 $'000 NMV of felled logs[i]	19X0 '000 hectares	19X0 '000 m^3	19X0 $'000 net change in NMV	19X0 $'000 NMV of felled logs
PLANTATIONS[g]								
Softwood Pinus Radiata	76.0	19,000	3,800	2,000	78.0	19,000	2,500	2,000
Other	2.0	1,000	200	10	2.0	1,000	400	300
	78.0	20,000	4,000	2,010	80.0	20,000	2,900	2,300
Hardwood Eucalyptus nitens	4.0	1,500	100	150	5.1	1,600	400	300
Eucalyptus globulus	4.0	1,600	800	200	4.9	1,700	70	30
Other	0.2	300	100	30	0.2	300	30	10
	8.2	3,400	1,000	380	10.2	3,600	500	340
Total Plantation Area	**86.2**	**23,400**	**5,000**	**2,390**	**90.2**	**23,600**	**3,400**	**2,640**
Total Forest Area	**956.2**	**67,400**	**15,000**	**2,410**	**960.2**	**68,190**	**11,400**	**2,970**

[a]**Forest** refers to an area incorporating all living and non-living components, that is dominated by trees having usually a single stem and a mature or potentially mature stand height exceeding 5 metres with existing or potential projective foliage cover of overstorey strata about equal to or greater than 30 per cent. This definition includes native forests and plantations regardless of age.

[b]**Regrowth Eucalypt Forest** refers to native eucalypt forests that have regenerated after a known fire, logging or other disturbance. The growth form has not yet reached the mature stage, often crowns are conical in shape and the stand is in an increment phase.

[c]**Mature Eucalypt Forest** refers to native eucalypt forests that have assumed a growth form characterised by trees with large open and deep crowns, with die back of the apical tips common. Generally, the net annual increment of these forests is low caused by loss of growth vigour and attack by fungal and insect agents.

[d]**Native Conifer Forest (Callitris)** refers to native conifer forests of the genus callitris.

[e]**Rainforest** refers to native forests of species other than the genus Eucalyptus occurring in areas of high rainfall and having a closed canopy (interlocking tree crowns).

[f]**Other Native Forest** refers to forests of native tree species other than those in categories b to e.

[g]**Plantation** refers to forests which are established by planting seedlings at specified spacing following intensive site preparation. **Softwood Plantation** refers to plantations of softwood trees (softwood is timber of coniferous trees, irrespective of physical hardness of the timber). **Hardwood Plantation** refers to plantations of hardwood trees (hardwood is timber from broad-leaved, flowering trees, irrespective of physical hardness of the timber).

[h]**The net change in NMV:** the net increment in the net market value of trees in forests recognised as revenue is determined as the difference between the net market value of trees as at the beginning of the reporting period and the net market value of trees as at the end of the reporting period, less the costs of acquiring and planting trees during the reporting period.

All costs incurred in developing and managing the trees in forests are recognised as an expense when incurred, except acquisition and planting costs, which are recognised as self-generating and regenerating assets (trees in forests).

[i]**The NMV of felled logs:** the net market value of felled logs recognised as revenue is determined as the difference between the net market value of logs felled during the reporting period immediately after felling and the costs of felling.

2. **Paragraph 7.1 (b)**

	19X1 $ '000	19X0 $ '000
Net market value of all trees in forests held for sale or to generate produce for sale	850,000	862,000
Net market value of restricted trees in forests held for sale or to generate produce for sale	561,000	601,000

Nature of Restrictions:

All native forests are restricted by 'sustainable yield' requirements which generally restrict the amount of commercial timber that can be harvested annually to that which approximates the long term annual native forest growth potential. The entity is responsible for the administration of [*identify regulations or other externally-imposed requirements which restrict the entity's use or capacity to sell SGARAs*] which restricts the entity's use of and capacity to harvest native forest products.

In addition to sustainable yield restrictions all native forests are subject to the provisions of [*identify relevant legislation*]. This legislation ensures that the entity manages its native forest reserves under a sustainable management regime taking into account the effects of afforestation on the surrounding wildlife and flora.

In addition to the above restrictions $7,768,000 of trees in native forests are restricted by the requirements imposed by [*identify relevant legislation*]. These forests are suspended from logging due to a proposal to restrict access for dedicated water management.

3. **Paragraph 7.1 (c) (i)**

Method of Determining Net Market Value:

There is no active and liquid market for large areas of native forest. Accordingly, the best indicator of net market value is net present value. This indicator best accommodates legislative requirements and could accommodate alternative native forest management strategies for wood products. It is used to estimate an aggregate estimate of the value of the trees in a native forest where an observable market price for those trees does not exist.

Although there is an intermittently active market for softwood and hardwood plantations, there is no suitable market evidence available to value the plantations by reference to equivalent sales. Consequently, plantations are valued using the same methodology as native forests.

4. Paragraph 7.1 (c) (ii)

Significant Assumptions Made in Determining Net Market Value:

(a) Forests are valued based on expected volumes of merchantable timber that could be obtained from existing stands, given current management strategies and legislative and other externally imposed restrictions

(b) Only the current crop is valued. The limit of the cash flow analysis for forest types is based on the nominated rotation periods for each forest type

(c) The cost of growing the trees is deducted in determining the net cash flows

(d) Costs and prices are based on the average of the entity's data from the preceding three years

(e) The costs associated with the land managed by the entity on which native forests and plantations are grown are rent, rates, land tax and other costs

(f) The valuation assumes the continuation of existing practices with regard to silviculture and harvesting

(g) A nominal after-tax discount rate of 10 % per annum is applied to the estimated cash flows. This discount rate takes into account the risk associated with future cash flows.

5. Paragraph 7.1 (c) (iii)

Source of Valuation of Trees in Forests:

The net market value of the trees in the forests has been determined in accordance with a directors' valuation.

6. Paragraph 7.1.3

Sensitivity of the Net Market Value of the Trees in Forests Held Primarily for Sale or to Generate Produce for Sale to Changes in Significant Assumptions

	Change	**Effect on Net Market Value**	
		19X1 **$'000**	**19X0** **$'000**
Discount Rate	10%+1%	(89,000)	(87,000)
	10% -1%	104,000	100,000
Future Costs	+5%	(15,000)	(16,000)
	-5%	15,000	16,000
Stumpage Rates[j]	+5%	58,000	55,000
	-5%	(58,000)	(55,000)

[j]**Stumpage Rates** refer to the residual value of timber calculated by deducting the costs of harvest and transport to the market or a processing centre.

APPENDIX 3

ILLUSTRATION OF THE EFFECTS OF TRANSACTIONS AND OTHER EVENTS ON THE NET INCREMENT (DECREMENT) IN THE NET MARKET VALUE OF SGARAs

This Appendix forms part of the commentary and is provided for illustrative purposes only.

1. Consumable-SGARAs

The following illustrates one method of determining the net increment or decrement in the net market value of consumable-SGARAs (that is, SGARAs which are themselves to be harvested) recognised as revenues or expenses in accordance with paragraph 5.4 of the Standard. It also illustrates the application of paragraphs 5.5 and 5.6 of the Standard. In particular, it illustrates the effect of:

(a) purchasing SGARAs

(b) incurring additional costs in relation to purchased SGARAs

(c) changes in the net market value of the purchased SGARAs between acquisition date and the first reporting date after acquisition

(d) selling SGARAs

(e) extracting non-living produce from SGARAs

(f) incurring costs in processing non-living produce from SGARAs

(g) selling processed non-living produce

(h) changes in the net market value of SGARAs between two reporting dates.

In the following illustration, all amounts are assumed to be material and all transactions are cash transactions. The entity, X Entity, does not have any SGARAs prior to the first transaction described in (a) below. It then intends buying, breeding, selling or slaughtering cattle, and processing and selling meat to retail outlets.

(a) Purchase of SGARAs

X Entity purchased cattle at an auction for $530,000. The auctioneer's fee (payable by the seller) was 1% of that price. It cost X Entity $5,000 to transport the cattle to its farm. If X Entity were to sell the cattle it would incur a 1% auctioneer's fee and market transportation costs of $5,000.

The journal entry giving rise to the acquisition is:

		$	$
Dr	SGARAs	535,000	
Cr	Cash		535,000
Dr	Decrement in net market value of SGARAs recognised as expenses	15,300	
Cr	SGARA		15,300

Recording SGARAs at acquisition cost, and then writing them down to net market value at date of acquisition by adjusting for the buying costs ($5,000 transport from market) and selling costs ($5,000 transport to market and $5,300 auctioneer's fees)

(b) Additional costs in relation to SGARAs

Veterinary fees of $1,000 were incurred and paid for by X Entity.

This is reflected in the following journal entry:

Dr	Veterinary expenses	1,000	
Cr	Cash		1,000

Recording veterinary fees incurred on SGARAs

(c) Changes in net market value of SGARAs between the acquisition date and the next reporting date

As at the first reporting date after acquisition the net market value of the X Entity's SGARAs is $580,000.

Based on the journal entries in (a) above, the carrying amount of SGARAs is $519,700. Therefore, the increment in net market value to be recognised as an item of revenue is $60,300 ($580,000 - $519,700).

This is reflected in the following journal entry:

		$	$
Dr	SGARAs	60,300	
Cr	Net increment in net market value (revenue)		60,300

Recording increment in net market value of SGARAs as an item of revenue

Assuming no other transactions take place, the profit from operating activities for the first reporting period after acquisition would be determined as:

Increment in net market value recognised as revenues (see journal entry immediately above)	60,300
Decrement in net market value recognised as expenses (see journal entry (a) above)	15,300
Net increment in net market value recognised as revenues	45,000
Less Other Expenses	
Veterinary fees	1,000
Profit from operating activities	44,000

(d) Sales of SGARAs

Subsequent to the first reporting date, X Entity sells some cattle at auction for proceeds of $15,000 and pays auction fees of $150 and market transportation costs of $500. Assuming X Entity does not measure all the SGARAs on hand at net market value immediately before the sale, the following journal entry would record the sale.

		$	$
Dr	Cash	14,350	
Cr	SGARAs		14,350

Recording net sales proceeds from the sale of SGARAs

The effect of this journal entry is to reduce the carrying amount of SGARAs by the net market value of the sold SGARAs immediately prior to sale. Effectively, the net market values of the sold SGARAs are removed from the accounting records and replaced with another asset, cash. The journal entry in (h) below records the change in net market values of SGARAs during the reporting period, and thereby includes the changes in the net market values of the sold SGARAs that occurred prior to the sale.

(e) Extracting non-living produce from SGARAs

X Entity slaughters some cattle. The net market value of the carcases immediately after slaughter is $20,000 (exclusive of slaughtering costs). Slaughtering costs are $2,000.

This is reflected in the following journal entry:

Dr	Deemed cost of inventories	22,000	
Cr	Net market value of slaughtered cattle recognised as revenue		20,000
Cr	Cash		2,000

Recording the effect on inventories of the slaughter of SGARAs, the costs to slaughter the SGARAs and the revenue arising at the time of slaughter

The effect of this journal entry is to initially recognise inventory at its deemed cost in accordance with paragraph 5.6 of the Standard and to enable the separate identification of revenue relating to the net market value of non-living produce extracted from SGARAs in accordance with paragraph 5.5 of the Standard. It ensures that the effect on the net market value of SGARAs of growing the now non-living produce and the effect on the carrying amount of inventory of extracting the non-living produce are not netted out in the determination of net increments (decrements) in the net market value of SGARAs that is required to be recognised as revenues (expenses) in accordance with paragraph 5.4 of the Standard. Item (h) below shows the determination of the net increment (decrement) in the net market value of SGARAs.

(f) *Costs incurred in processing non-living produce*

X Entity processes carcases from slaughtered cattle at a cost of $7,000.

This is reflected in the following journal entry:

		$	$
Dr	Deemed cost of inventories	7,000	
Cr	Cash		7,000

Recording the absorption of production costs into the carrying amount of inventories

(g) *Sale of processed non-living produce*

X Entity sells the processed meat for $30,000.

This is reflected in the following journal entry:

Dr	Cash	30,000	
Cr	Sales revenue		30,000

Recording revenue from the sale of inventories for cash

Dr	Deemed cost of inventories sold (expense)	29,000	
Cr	Deemed cost of inventories (asset)		29,000

Recording the deemed cost of inventories sold (the carrying amount of inventories immediately prior to sale)

(h) *Changes in the net market values of SGARAs recognised as revenue between two reporting dates*

At the reporting date the net market value of the SGARAs still on hand is $600,000.

The net increment in the net market values of the SGARAs recognised as revenue would be determined as follows:

	$
Net market value at beginning of reporting period (see (c) above)	580,000
Effect of the sale of SGARAs on the carrying amount of SGARAs (see journal entry (d) above)	(14,350)
Carrying amount as at the reporting date (before adjusting for changes in net market values)	565,650
Net market value at the reporting date	600,000
Net increment in net market value of SGARAs recognised as revenue	34,350

The net increment in the net market values of SGARAs recognised as revenues would give rise to the following journal entry:

		$	$
Dr	SGARAs	34,350	
Cr	Net increment in net market value recognised as revenue		34,350

Recording the change in the net market value of SGARAs recognised as revenues

Assuming no other transactions take place, the profit from operating activities for the reporting period would be determined as:

	$
Sale of meat (see journal entry (g) above)	30,000
Less Deemed cost of sales (see journal entry (g) above)	29,000
Net revenue from the sale of meat	1,000
Net incrment in net market values of SGARAs recognised as revenues (see the journal entry immediately above)	34,350
Net market value of slaughtered cattle immediately after slaughter recognised as revenues (see journal entry (e) above)	20,000
Profit from operating activities	55,350

2. Bearer-SGARAs

The following illustrates one method of determining the net increment or decrement in the net market value of bearer-SGARAs (that is, SGARAs that bear produce for harvest) recognised as revenues or expenses in accordance with paragraph 5.4 of the Standard. It also illustrates the application of paragraphs 5.5 and 5.6 of the Standard. In particular, it illustrates the effect of:

(a) incurring costs to maintain SGARAs

(b) extracting non-living produce from SGARAs

(c) selling non-living produce

(d) changes in the net market value of SGARAs between two reporting dates.

In the following illustration, all amounts are assumed to be material and all transactions are cash transactions. The entity, Y Entity, operates a hazelnut grove. The net market value of the hazelnut trees as at 30 June 1999 (the previous reporting date) is $101,220.

(a) Costs incurred to maintain SGARAs

Employee expenses, fertilisers, lease expenses and other expenses amounting to $17,000 were incurred and paid for by Y Entity.

This is reflected in the following journal entry:

		$	$
Dr	Various expenses	17,000	
Cr	Cash		17,000

Recording expenses incurred on SGARAs

(b) Extracting non-living produce from SGARAs

Y Entity picks hazelnuts. The net market value of the hazelnuts immediately after picking is $4,091 (exclusive of picking costs). Picking costs are $1,264.

This is reflected in the following journal entry:

Dr	Deemed cost of inventories	5,355	
Cr	Net market value of hazelnuts immediately after picking recognised as revenue		4,091
Cr	Cash		1,264

Recording the effect on inventories of picked hazelnuts, the costs to pick and the revenue arising at the time of picking

The effect of this journal entry is to initially recognise inventory at its deemed cost in accordance with paragraph 5.6 of the Standard and to enable the separate identification of revenue relating to the net market value of non-living produce extracted from SGARAs in accordance with paragraph 5.5 of the Standard. It ensures that the effect on the net market value of SGARAs of growing the now non-living produce and the effect on the carrying amount of inventory of extracting the non-living produce are not netted out in the determination of net increments (decrements) in the net market value of SGARAs that is required to be recognised as revenues (expenses) in accordance with paragraph 5.4 of the Standard. Item (d) below shows the determination of the net increment (decrement) in the net market value of SGARAs.

(c) Sale of non-living produce

Y Entity sells 80% of the hazelnuts for $4,284 immediately after picking. Selling costs are assumed to be immaterial.

This is reflected in the following journal entries:

		$	$
Dr	Cash	4,284	
Cr	Sales revenue		4,284
	Recording revenue from the sale of inventories for cash		
Dr	Deemed cost of inventories sold (expense)	4,284	
Cr	Deemed cost of inventories (asset)		4,284
	Recording the deemed cost of inventories sold (the carrying amount of hazelnut inventories sold immediately prior to sale)		

(d) Changes in the net market values of SGARAs between two reporting dates

At 30 June 2000 (reporting date) the net market value of the SGARAs still on hand is $142,470.

The net increment in the net market values of the SGARAs recognised as revenues would be determined as follows:

Net market value at beginning of reporting period	101,220
Net market value at the reporting date	142,470
Net increment in net market value of SGARAs recognised as revenue	41,250

The net increment in the net market values of SGARAs recognised as revenue would be recorded by the following journal entry:

		$	$
Dr	SGARAs	41,250	
Cr	Net increment in net market value (revenue)		41,250

Recording the change in the net market value of SGARAs recognised as revenue

Assuming no other transactions take place, the profit from operating activities for the reporting period ending 30 June 2000 would be determined as:

Sale of hazelnuts (see journal entry (c) above)	4,284
Less Deemed cost of sales (see journal entry (c) above)	4,284
Net revenue from the sale of hazelnuts	0
Net increment in net market values of SGARAs recognised as revenue (see journal entry immediately above)	41,250
Net market value of hazelnuts picked during the year (as at picking date) recognised as revenue (see journal entry (b) above)	4,091
Total net revenues	45,341
Less Costs of maintaining hazelnut trees	17,000
Profit from operating activities	28,341

DEVELOPMENT OF THE STANDARD

This section does not form part of the Standard. It is a summary of the development of the Standard and the Public Sector Accounting Standards Board's and the Australian Accounting Standards Board's (the Boards') consideration of the key issues dealt with in the Standard.

1 The issue of the Standard follows consideration of the responses received on Exposure Draft ED 83 "Self-Generating and Regenerating Assets", which was prepared by the Boards and released in August 1997.

2 ED 83 noted that the International Accounting Standards Committee (IASC) has an active project on Agriculture on its agenda which encompasses accounting for SGARAs and that the Boards would monitor the IASC's progress on the Agriculture project in line with Policy Statement 6 "International Harmonisation Policy" and consider that progress in deciding the appropriate time for issuing a Standard. The Boards decided to issue a Standard ahead of the IASC due to the uncertain timing of the IASC project and the urgent need for guidance for Australian entities that control SGARAs. Implementation experience will be of benefit to the IASC as it finalises its Agriculture project. Where opportunities arise, the Boards will continue to provide input to the IASC in the interest of harmony between the Australian Standard and an IASC Standard on Agriculture.

Noteworthy Differences from ED 83

3 ED 83 proposed that SGARAs should not be classified into current and non-current portions. The Boards have removed this prohibition from the Standard because they consider that the issue should be dealt with in the project on the presentation of financial reports which forms part of the project harmonising Australian Standards with International Accounting Standard IAS 1 "Presentation of Financial Statements".

4 In the course of developing the Standard, the view was expressed by some that the proposed requirement to disclose information that will assist users of financial reports to assess the sensitivity of the carrying amounts of SGARAs to changes in the significant assumptions made in determining the carrying amounts would be unduly onerous. The Boards decided to remove the proposed requirement, but continue to believe that the information would be useful to users. Accordingly, the Boards encourage disclosure of the information.

5 A view was also expressed by some that a requirement to disclose the physical quantities of SGARAs would be unduly onerous. In response to this view, the Boards decided that the Standard should require disclosure of an estimate or relevant indication of physical quantities of SGARAs. Disclosure of that information is useful to users.

6 ED 83 did not propose a requirement to disclose the net increment or decrement in the net market values of SGARAs that is recognised as revenues or expenses, nor the net market value of non-living produce extracted from SGARAs during the reporting period immediately after extraction that is recognised as revenues or expenses. This is because it was expected that other pronouncements would require that disclosure (for example, the Australian Accounting Standard that will result from the review of Accounting Standard AASB 1034 "Information to be Disclosed in Financial Reports" and the revised Australian Accounting Standard that will result from the review of Australian Accounting Standard AAS 16 "Financial Reporting by Segments"). However, in the interest of keeping all requirements associated with SGARAs in the one Standard, the Boards decided to include a requirement to disclose the revenues or expenses that are recognised in relation to SGARAs arising from changes in net market values and the effect of extracting non-living produce. The Boards decided not to prescribe how the net increment or decrement should be determined (that is, not prescribe the treatment of costs incurred in relation to SGARAs), but to require disclosure of the method by which the net increment or decrement is determined. The Boards noted that the policy adopted by an entity for the treatment of costs associated with SGARAs would affect the amount of revenues and expenses recognised but not the result/profit or loss attributable to SGARAs because the effect on expenses arising from the treatment of those costs would be offset by the effect on revenues. To assist in determining the amount to be disclosed, commentary paragraphs and an Appendix illustrating the effects of extracting non-living produce from SGARAs and other events on the net increment or decrement in the net market values of SGARAs recognised as revenues or expenses (Appendix 3) have been included in the Standard.

Principal Features of ED 83 Retained in the Standard

7 The Standard retains the basic structure and content of ED 83. SGARAs are required to be measured at net market value, and a change in that value is to be recognised as a revenue or an expense in the profit and loss or other operating statement in the reporting

period in which the change occurs. The Boards believe that net market value best reflects the future economic benefits embedded in SGARAs because it captures the value of biological transformation which is not adequately reflected in historical costs. Although historical cost may be similar to current value at acquisition and for some time thereafter, over time it would normally differ materially from that value, particularly if the SGARA has a long maturation period. Additionally, certain SGARAs, such as native forests, may not have an associated historical cost. Entities applying historical cost measurement to those SGARAs would therefore omit certain valuable assets from their statement of financial position. Furthermore, using net market value enables the profit and loss or other operating statement to reflect a more relevant measure of the periodic performance of an entity that controls SGARAs than is the case using historical costs.

8 During the development of the Standard, a view was expressed by some that:

(a) the Standard should not be applicable to SGARAs with short-term production cycles, such as wheat crops, and that generally accepted historical cost accounting principles should apply. The Boards believe that although often the proceeds from the sale of the non-living produce of these SGARAs are realised shortly after biological change takes place, financial performance occurs as biological change takes place, rather than when the produce is sold. However, the Boards expect that the historical cost of these partially-grown SGARAs normally would provide the best indicator of net market value at the reporting date.

(b) the Standard should not apply to long-term bearer-SGARAs such as grape vines. They argued that these SGARAs are equivalent to plant and equipment and should be accounted for in the same manner as plant and equipment. The Boards believe that although there are similarities between a machine and a vine, the vine is fundamentally different due to its "living" characteristic. Historical cost does not adequately reflect the future economic benefits embodied in long-term bearer-SGARAs and the financial performance of such SGARAs.

(c) non-SGARAs to which SGARAs are inextricably related (for example, the land upon which trees grow in a forest and the infrastructure within the forest) should not be required to be separated from the SGARAs. The Boards are of the view that the "living" characteristic of SGARAs provides an appropriate basis for defining the scope of the Standard, and therefore that non-SGARAs should be excluded from the Standard's scope. The Standard requires that where the net market value of an integrated group of SGARAs and non-SGARAs is determined, that value should be allocated on a reasonable basis to the SGARA components and the non-SGARA components for the purpose of determining the net market value of the SGARAs. The carrying amounts of the non-SGARAs, and the treatment of changes in those carrying amounts, should be determined in accordance with applicable Australian Accounting Standards.

(d) in the absence of active and liquid markets, the determination of net market value of SGARAs is subjective. The Boards acknowledge the need for professional judgement in applying the Standard, and note that the disclosures required provide users with information about the assumptions made in determining net market values in the absence of active and liquid markets. Those disclosures provide users with information to assess the reliability of the recognised amounts.

(e) changes in the net market value of SGARAs should be recognised directly in equity, consistent with the general treatment of revaluation increments and decrements for property, plant and equipment. The Boards note that the requirement to recognise changes in the carrying amount of SGARAs immediately as revenues or expenses is compatible with the approaches taken in Australian Accounting Standards which prescribe the measurement of assets at current values (in particular AAS 25 "Financial Reporting by Superannuation Plans" and AAS 26 "Financial Reporting of General Insurance Activities"). Recognising revaluation increments and decrements as revenues or expenses provides more relevant information to users of financial reports on a more timely basis than recognising those changes as capital maintenance adjustments included directly in equity. The latter approach does not recognise revenues or expenses for changes in the value of a SGARA until the SGARA is sold. Particularly for a SGARA with a long maturation period, the recognition of revenue only at the time of sale does not report the most relevant information to users of financial reports. The entity's financial performance should be measured on a more timely basis. Concern was expressed by some about recognising "unrealised" revenues and expenses and the consequences for the entity if it were to base its profit distribution policy on reported profits, given the volatility in the net market value of many SGARAs. The Boards note that it is reasonable to expect that users of financial reports would read the financial reports in the context of the volatility inherent in the values of SGARAs, and management could choose to appropriate an amount of profits to a reserve to indicate to shareholders the potentially undistributable nature of the profits.

Recognising changes in net market values of SGARAs in the profit and loss or other operating statement is also regarded as preferable to recognising only changes in net market values resulting from biological changes in the profit and loss or other operating statement and recognising changes in net market value resulting from price changes as capital maintenance adjustments included directly in equity. The Boards' view is that the total change in net market value is a revenue or an expense which should therefore be recognised in the profit and loss or other operating statement. In addition, for many SGARAs, it would be impracticable to separate the change in net market value into its price and biological components without making an arbitrary allocation.