

TR 36

Facts

A company is engaged in the breeding and export of monkeys. It has for the accounting period ended 31 December 2003 prepared its Financial Statements in accordance with the Mauritius Companies Act 2001 and the International Accounting Standards ("IAS"). IAS 41 Agriculture has been adopted by the company and applied retrospectively. The primates held for sale designated as non-bearer biological assets are measured at fair value less estimated point of sale costs. The fair value of the primates held for sale is based on expected selling price and future direct costs to bring the primates to saleable condition, discounted at an appropriate discount rate to balance sheet date.

The company contends that should IAS 41 be applied for tax purposes this will discourage expansion of the business whereby any increase in stock level of non-bearer biological assets will lead to additional tax burden for the company on unrealised profits. To remedy this situation the company proposes to value stock under IAS 2 (lower of cost and net realisable value) for biological assets having a life cycle of more than 1 year.

Point at issue

Whether IAS 2 Inventories can be used to value the monkeys held for sale.

Ruling (issued in July 2004)

IAS 2 cannot be used to value the monkeys held for sale since producers' inventories of livestock fall outside the scope of that IAS. However, for income tax purposes a standard value may be adopted in respect of the monkeys held for sale in accordance with Regulation 4 (3) of the Income Tax Regulations 1996.

In view of the high profit margin expected in that line of business, a standard value similar to that used in respect of cattle, i.e. the market value less 40 per cent thereof, may be adopted for the valuation of monkeys.