

SCSI Professional Guidance

Farm Stocktaking Valuations

1st edition, Information Paper



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Information Paper

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SCSI/RICS Information Paper

This is an information paper (IP). Information papers are intended to provide information and explanation to SCSI / RICS members on specific topics of relevance to the profession. The function of this paper is not to recommend or advise on professional procedure to be followed by members.

It is, however, relevant to professional competence to the extent that members should be up to date and have knowledge of information papers within a reasonable time of their coming into effect.

Members should note that when an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of any relevant information papers published by SCSI / RICS in deciding whether or not the member has acted with reasonable competence.

Document status defined

SCSI and RICS produce a range of standards products. These have been defined in the table below.

Document status defined		
Type of document	Definition	Status
SCSI practice statement	Document that provides members with mandatory requirements of the Rules of Conduct for members	Mandatory
SCSI code of practice	Standard approved by SCSI that provides users with recommendations for accepted good practice as followed by conscientious surveyors	Mandatory or recommended good practice (will be confirmed in the document itself)
SCSI guidance note	Document that provides users with recommendations for accepted good practice as followed by competent and conscientious surveyors	Recommended good practice
SCSI information paper	Practice based information that provides users with the latest information and/or research	Information and/or explanatory commentary

1. Introduction

1.1

The aim of this information paper is to assist members providing a valuation of farm stocks to correctly confirm instructions and prepare reports to clients that are compliant with the SCSi/RICS Valuation – Professional Standards ('the Red Book'), to ensure the highest standards of professionalism and clarity.

1.2

The determination of the value of farm stocks may be required for a number of reasons, not least the preparation of the financial statements of a farming enterprise.

In any enterprise, the calculation of profit or loss for an accounting year requires the matching of costs with related revenues. The cost of unsold or unconsumed stocks will have been incurred in the expectation of future revenue, and when this will not arise until a later year it is appropriate to carry forward this cost to be matched with the revenue when it arises; the applicable concept is the matching of cost and revenue in the year in which the revenue arises rather than in the year in which the cost is incurred. If there is no reasonable expectation of sufficient future revenue to cover costs incurred (e.g., as a result of deterioration, obsolescence or a change in demand) the irrecoverable cost should be charged to revenue in the year under review. Thus, for accounting purposes, stocks normally need to be stated at cost, or, if lower, at net realisable value (paragraph 1, Statements of Standards Accounting Practice No.9 (SSAP 9)). However, members should be aware of the requirements of FRS 102 when performing valuations of farm stocks to be incorporated into financial statements prepared under FRS 102.

1.3

The updated Irish and UK GAAP (FRS 100–103 and FRSSE 2015) were published by the Financial Reporting Council (FRC) on 14 March 2013, and amended in August 2014. They introduced new Financial Reporting Standards (FRSs) for the Republic of Ireland and United Kingdom effective on, and from, 1 January 2015, with early adoption permitted for accounting periods ending on or after 31 December 2012. The previous Irish and UK GAAP accounting standards (SSAP 9) cannot be applied to accounting periods beginning on or after 1 January 2015.

1.4

Where a valuation of farm stocks is to be provided to enable the client to prepare its financial statements, members should determine the accounting framework under which the valuation is to be used.

1.5

Under Irish company law, the directors of a company (including the directors of an incorporated farming business) may prepare the individual financial statements of the company in accordance with either:-

- International Financial Reporting Standards; or
- Companies Act framework.

1.6

Compliance with the accounting standards issued by the UK's Financial Reporting Council (Irish GAAP) is normally required in order to prepare the Companies Act framework financial statements giving a true and fair view. Reporting entities (sole trader farmers; partnership of farmers etc.) not subject to the Companies Acts, usually adopt Irish GAAP for the purposes of preparing financial information to support returns to the taxation authorities.

1.7

While most reporting entities have the choice of accounting framework noted at 2.3, the majority of Irish reporters prepare their financial statements in accordance with Irish GAAP. Accordingly, this paper considers the implications of valuations of farm stocks for individual financial statements prepared in accordance with Irish GAAP only.

2. Basic accounting requirements – valuation of farm stocks

2.1

For accounting periods that began before 1 January 2015 the Irish GAAP accounting requirements that apply to the majority of valuations of farm stocks are set out in Statements of Standard Accounting Practice (SSAP) 9, *Stocks and long-term contracts*.

2.2

Where the financial accounting period began on or after 1 January 2015, section 13 “*Inventories*” and section 34 “*Agriculture*” in FRS 102 issued in August 2014 by the UK’s Financial Reporting Council set out the Irish GAAP accounting requirements that apply. Section 34 applies to biological assets related to agricultural activity and agricultural produce at the point of harvest, while section 13 applies to all other types of stocks.

2.3

The valuation of farm stocks reflects the guidance issued by the Irish tax authorities: “*Taxation Issues for Milk Production Partnerships*” (refer to appendix 3) to the extent that the guidance is not inconsistent with the accounting standards for which the valuation is required to be conducted. Where there is inconsistency, the valuation is performed in accordance with the accounting standard requirements and any differences with the Irish tax authorities’ guidelines highlighted in the valuers’ report.

Valuers should refer to the RICS Valuation – Professional Standards, 2014 (the Red Book), UKVS 1.13, *Inventories* (previously referred to as *Trading stock*),. Land and/or buildings and other assets held as inventories shall be valued in accordance with FRS 102, Section 13 *Inventories*, which is similar to the Statement of Standard Accounting Practice 9 (SSAP 9), which requires assets held as trading stock and work in progress to be valued at cost or, if lower, at net realisable value.

2.4

The net realisable value of any asset is defined in FRS 102 as the estimated selling price less cost to complete and sell – see RB 2014 UKVS 1.13.

2.5

RICS Valuation – Professional Standards, (RB 2014), UKVS 1.13.5 excludes farm stocktaking valuations from the requirement to obtain written statements from the client setting out the costs of the works to date and/or the estimated costs to complete the works as at the valuation date. UKVS 1.13.6 refers valuers to the HMRC Business Income Manual BIM55410 *Farming: stock valuation*, formerly BEN19, now help sheet IR232 (as at December 2014), which is the UK taxation authority’s guidance similar to the Irish Revenue’s guidance set out in appendix 3.

2.6

Members have regard to the definitions and requirements of FRS 102 when performing valuations of farm stocks to be incorporated into financial statements prepared under FRS 102. The following table offers a comparison of the key definitions and requirements in SSAP 9 and FRS 102:

	SSAP 9 Stocks	Section 13, FRS 102 Inventories	Section 34 FRS 102 Agriculture
Inventories/stocks	<p>Stocks comprise the following categories:</p> <ul style="list-style-type: none"> (a) goods or other assets purchased for resale; (b) consumable stores; (c) raw materials and components purchased for incorporation into products for sale; (d) products and services in intermediate stages of completion; (e) long-term contract balances; and (f) finished goods. 	<p>Inventories are assets:</p> <ul style="list-style-type: none"> (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services. 	<p>Agricultural produce is the harvested product of the entity's biological assets.</p> <p>Biological assets are a living animal or plant.</p>
Measurement	<p>The amount at which stocks are stated in periodic financial statements should be the total of the lower of cost and net realisable value of the separate items of stock or of groups of similar items.</p> <p>Net realisable value: The actual or estimated selling price (net of trade but before settlement discounts) less:</p> <ul style="list-style-type: none"> (a) all further costs to completion; and (b) all costs to be incurred in marketing, selling and distributing. 	<p>An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.</p>	<p>Inventories comprising agricultural produce that an entity has harvested from its biological assets should be measured on initial recognition, at the point of harvest, at either their fair value less estimated costs to sell or the lower of cost and estimated selling price less costs to complete and sell. This becomes the cost of the inventories at that date for application of FRS 102 section 13.</p>

	SSAP 9 Stocks	Section 13, FRS 102 Inventories	Section 34 FRS 102 Agriculture
Cost	Expenditure which has been incurred in the normal course of business in bringing the product or service to its present location and condition. This expenditure should include, in addition to cost of purchase, such costs of conversion as are appropriate to that location and condition.	Costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.	
Costs of purchase	Purchase price including import duties, transport and handling costs and any other directly attributable costs, less trade discounts, rebates and subsidies.	Purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.	
Costs of conversion	<p>Cost of conversion comprises:</p> <p>(a) costs which are specifically attributable to units of production, e.g., direct labour, direct expenses and sub-contracted work;</p> <p>(b) production overheads (as defined in paragraph 20);</p> <p>(c) other overheads, if any, attributable in the particular circumstances of the business to bringing the product or service to its present location and condition.</p>	The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment,	

	SSAP 9 Stocks	Section 13, FRS 102 Inventories	Section 34 FRS 102 Agriculture
Costs of conversion (continued)	<p>Production overheads: Overheads incurred in respect of materials, labour or services for production, based on the normal level of activity, taking one year with another. For this purpose each overhead should be classified according to function (e.g., production, selling or administration) so as to ensure the inclusion, in cost of conversion, of those overheads (including depreciation) which relate to production, notwithstanding that these may accrue wholly or partly on a time basis.</p>	<p>and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour</p>	
Permitted cost formula	<p>The method chosen must be one which appears to the directors to be appropriate in the circumstances of the company:</p> <p>(a) the method known as 'first in, first out' (FIFO);</p> <p>(b) the method known as 'last in, first out' (LIFO);</p> <p>(c) a weighted average price; and</p> <p>(d) any other method similar to any of the methods mentioned above.</p> <p>This standard requires the use of a method which provides a fair approximation to the expenditure actually incurred. The use of some of the methods (a) to (d) above allowed by law will not necessarily meet this requirement.</p>	<p>First-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by FRS 102.</p>	

	SSAP 9 Stocks	Section 13, FRS 102 Inventories	Section 34 FRS 102 Agriculture
Permitted cost formula (continued)	In particular, the use of the LIFO method can result in the reporting of current assets at amounts that bear little relationship to recent costs. This may result in not only a significant misstatement of balance sheet amounts but also a potential distortion of current and future results. This places a special responsibility on the directors to be assured that the circumstances of the company require the adoption of such a valuation method in order for the accounts to give a true and fair view.		
Costs excluded from stocks/inventories	<p>All abnormal conversion costs (such as exceptional spoilage, idle capacity and other losses) which are avoidable under normal operating conditions need for the same reason, to be excluded.</p> <p>The costs of general management, as distinct from functional management, are not directly related to current production and are, therefore, excluded from cost of conversion and, hence, from the cost of stocks and long-term contracts.</p>	<p>(a) abnormal amounts of wasted materials, labour or other production costs;</p> <p>(b) storage costs, unless those costs are necessary during the production process before a further production stage;</p> <p>(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and</p> <p>(d) selling costs.</p>	

As noted above, under section 34 FRS 102, farm stocks that comprise biological assets and agricultural produce (as defined) can be accounted for either using the fair value model or the cost model – this accounting policy choice is applied consistently (para 34.3B FRS 102):-

Fair value model:

In determining fair value, an entity shall consider the following:

- (a) If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.
- (b) If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:
 - (i) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;
 - (ii) market prices for similar assets with adjustment to reflect differences; and
 - (iii) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.
- (c) In some cases, the information sources listed in (b) may suggest different conclusions as to the fair value of a biological asset or an item of agricultural produce. An entity considers the reasons for those differences, to arrive at the most reliable estimate of fair value within a relatively narrow range of reasonable estimates.
- (d) In some circumstances, fair value may be readily determinable even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the present value of expected net cash flows from the asset discounted at a current market determined rate results in a reliable measure of fair value.

If the fair value of a biological asset cannot be measured reliably, the entity shall apply the cost model to that biological asset until such time that the fair value can be reliably measured.

Cost model

An entity applying the cost model shall measure biological assets at cost less any accumulated depreciation and any accumulated impairment losses. In applying the cost model, agricultural produce harvested from an entity's biological assets shall be measured at the point of harvest at either:

- (a) the lower of cost and estimated selling price less costs to complete and sell; or
- (b) its fair value less costs to sell. Any gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises. Such measurement is the cost at that date when applying Section 13 of FRS 102.

3. General Compliance

Valuers must comply with the Red Book, VPS 3, Valuation reports, paying particular attention to Report Content. In addition, they must comply with VPS 1 Minimum terms of engagement.

Valuers should take care to identify and deal with any actual or potential conflicts of interest. To provide an audit trail for compliance or monitoring purposes, a note of all conflict of interest checks and their resolutions must be retained with the working papers. See Red Book PS 2.4 Independence, objectivity and conflicts of interest.

When staff who do not hold an SCSi/RICS qualification are assisting in the valuation, the responsible valuer must meet the requirements of the Red Book VPS 3.7 when signing the report.

4. Basis of Value and Methodology

4.1

In order to be compliant with the Red Book, the valuer must establish the precise purpose of the valuation with the client or his or her accountant and must also ensure the valuation complies with the applicable accounting standards. The applicable accounting standards for the valuation, which will dictate the basis of value, must be agreed with the client, noted in the file, be cited in the terms of engagement, applied in the valuation process and included in the report in the appropriate sections.

4.2

The primary basis of value, where the client's accounts are prepared using Irish GAAP, is the cost of production, or 'production cost'. Although this is not a basis of value recognised in the Red Book, 2014, the definition of this basis of value must be set out in full in the terms of engagement and in the report. – see PS1.7.3

4.3

Where net realisable value is less than the cost of production, then net realisable value should be used. This might be applicable, for instance, where the market value for a particular class of livestock has fallen below the production cost or, in the case of a growing crop, where there has been a failure through disease or drought either before or at the valuation date.

4.4

Net realisable value is essentially the sale proceeds of the stock in the condition in which the farmer intended it to eventually be marketed, less the costs in getting it to that condition. It also includes marketing, plus any grants, subsidies (but not Single Farm Payment) and, for breeding/production animals, ancillary income from the sale of progeny or produce. This basis is often misunderstood as being simply market value less costs of sale at the valuation date. The outcome may be similar, but not necessarily so.

4.5

The Irish Revenue also allows for valuation on the basis of 'deemed cost' in certain circumstances where actual costs of production are unknown or not reasonably obtainable. However 'deemed cost' should not be used where it would not result in a reasonable estimate of cost.

4.6

'Deemed cost' is defined as a percentage of market value. If this method is to be applied, reference must be made to the definition of market value in the Red Book (VPS 4.1.2) 'Deemed cost' is 75 per cent of market value for severed or harvested crops, sheep and pigs and 60 per cent of market value for cattle.

4.7

Section 34 of FRS 102 deals specifically with the valuation of biological assets and permits an accounting policy choice of either (a) the fair value model or (b) the cost model.

4.8

When applying the cost model of FRS 102, biological assets are generally measured at cost less accumulated depreciation and any accumulated impairment losses. Additionally, agricultural produce harvested from an entity's biological assets shall be measured at the point of harvest at either (a) the lower of cost and estimated selling price less costs to complete or (b) its fair value less costs to sell.

4.9

Under FRS 102, an entity applying the fair value model shall measure a biological asset on initial recognition and at each reporting date at its fair value less costs to sell. Section 34.6 of FRS 102 provides guidance on measuring fair value. If the fair value cannot be measured reliably, the entity shall apply the cost model until such time that the fair value can be reliably measured.

4.10

Valuers should be able to justify their valuations by reference to comparable evidence. This may be readily available to some valuers, both at the valuation date and subsequently. Other valuers need to keep specific valuation evidence on the relevant client files. Valuers should bear in mind that these valuations may be queried by the client or the client's advisers many months or years after they have been submitted.

4.11

The templates in Appendix 1 and 2 are intended to be indicative, incorporating the minimum necessary for compliance with Red Book VPS 1, minimum terms of engagement and Red Book VPS 3, valuation reports. Individual valuers may wish to include further items. However, care should be taken to ensure that the terms of engagement and report reflect the circumstances of the subject valuation.

4.12

The valuation date is normally the balance sheet date, which is the year end for tax accounting purposes.

4.13

The identity of the valuer is vital for the resolution of future queries and is mandatory for Red Book valuations (VPS 3.7 (a)). The status of the valuer is likely to be external, but might be otherwise, and in either case should be stated.

4.14

Any assumptions, special assumptions or departures, must be clearly stated. (VPS 4.2 and 4.3). Valuers may develop their own standard assumptions, in which case care must be taken to ensure that they are relevant to each individual valuation and comply with the minimum requirements of VPS 3, valuation reports.

4.15

The extent of the valuer's investigations and inspection should be set out as anticipated at the date of instruction. However, the client's instructions may change, and any changes should be confirmed. For example, the valuer may find on site that livestock have been sold since the balance sheet date and are no longer available for inspection. This does not preclude the valuation, however assumptions will have to be made and stated as to their condition, size and other relevant characteristics.

4.16

The valuer should be clear as to whether the report is to be disclosed and to whom. Different standards may apply for publicly quoted and foreign companies.

4.17

Valuers may wish to include their firm's standard terms of business. These may cover such matters as payment of fees, termination of engagement and limitation of liability.

4.18

The terms of engagement should be confirmed for each and every valuation. Although it is not a mandatory requirement, it is good practice to attach a copy of the terms of engagement to the valuation report.

5. Confirmation of Instructions

5.1

The confirmation of terms of engagement, as required by Red Book, VPS 1, is vital to protect both the client and the valuer and to ensure clarity.

5.2

The purpose of the valuation is very specific, and so appropriate terms of engagement will ensure that the valuation is not misused or wrongly applied by the client or the client's professional advisers.

5.3

Special terms of engagement and reporting may be required for certain companies and for other firms or organisations if the valuation is likely to be published.

5.4

Any assumptions, special assumptions, reservations, special instructions or departures must be clearly set out in the terms of engagement. It should be noted that it would not normally be appropriate to prepare a valuation for inclusion in financial statements on a special assumption.

6. Inspection and Reporting

6.1

The valuation date is likely to be the client's tax year end, and very often it is not practical to inspect on the actual valuation date. Live and dead stock present at the valuation date may no longer be on the farm at the inspection date, or may be in a different state or condition. The valuer should have regard to Red Book, PS 1.7.2, 7.2, Departures, which states that the valuer, in special circumstances, must confirm and agree with the client the departure of information and a clear statement to that effect must be included in the terms of engagement, report, and any published reference to it.

6.2

In some instances, a physical inspection of the stock will not be possible at all. When inspecting livestock, valuers should take particular care not to physically endanger themselves, their clients or the livestock. Bio-security issues may render a full inspection impossible.

6.3

In such circumstances, the valuer will have to rely heavily on the information supplied by the client and, while this may nevertheless be acceptable, it will have to be made especially clear in the report. In the event that the valuer has good reason for concern about the accuracy of the information supplied, this should also be stated and investigated.

6.4

See Appendix 2, Valuation report format.

Appendix 1: Confirming Instructions and Terms of Engagement

1. Terms of engagement

1.1. The minimum terms of engagement are specified by Red Book, VPS 1.

2. Suggested template

2.1. This suggested template and notes are provided for guidance only.

Terms of engagement for farm stocktaking valuations	
Company or firm name of valuer Address and contact details	
Client name	
Other intended users	<list other intended users>
Purpose of the valuation	<e.g. annual stocktaking valuation for accounting purposes and the assessment of closing stock at the valuation date. The valuation is in accordance with Irish GAAP accounting standards (SSAP 9/FRS 102) and this has been confirmed with your accountants. (Alter each of these as appropriate)>
Subject of valuation	<list trading stock held and used by the business as at the valuation date, e.g. growing and harvested crops, farm livestock, cultivations and stores>
Interest to be valued	<list relevant assets which were owned, held or available for use by the business or state if different>
Type of asset or liability and how it is used or classified by client	<e.g. trading stock used within the farming business>
Intended use of asset or liability (if different)	<insert 'applicable' or 'not applicable'>
Basis of value	<e.g. cost of production or, if applicable, actual cost, deemed cost, net realisable value (see note 3.2)>
Valuation date	<insert valuation date (see note 3.3)>
Disclosure of any previous material involvement, or a statement that there has not been any previous involvement	<e.g. previous annual stocktaking valuations, etc.>
Identity and status of valuer responsible for the valuation	<insert valuer's name and status as either 'internal' or 'external' (see note 3.4)>

Terms of engagement for farm stocktaking valuations (continued)	
Currency of valuation	<e.g. € euro >
Valuation assumptions	<insert confirmation that the assumptions (as set out in note 3.5) are appropriate and acceptable to the client>
Special assumptions (if any), reservations, special instructions and departures	<insert details>
Extent of valuer's investigations	<insert confirmation that the extent of investigations (as set out in note 3.6) are appropriate and acceptable to the client, and list any client's instructions to restrict valuer's investigations>
Nature and source of information supplied and to be relied upon by the valuer	<e.g. numbers, ages and types of livestock to be provided by client>
Consent to, or restrictions on, publication of report	<insert confirmation of restrictions (as set out in note 3.8)>
Limits or exclusion of liability to parties other than clients	<insert confirmation of restrictions (as set out in note 3.9)>
Valuation standards	<insert confirmation that valuation report will be in accordance with the Red Book>
Confirmation of competence	<insert confirmation of valuer's competence to undertake this type of valuation>
Fee basis, plus VAT at prevailing rates (Negotiations with Irish Revenue will be charged in addition to fee quoted)	<state whether the valuer and the client have agreed a flat fee for the report, or if the valuer will charge per hour and what that fee will be>
Complaints procedure	<insert: 'The firm operates an SCSI/RICS compliant complaints procedure, which is available on request.'>
Compliance	<insert: 'Compliance with SCSI/RICS standards may be subject to monitoring under the Institution's conduct and disciplinary regulations.'>

Appendix 2: Valuation Report Format

1. Format

- 1.1 The minimum reporting requirements are specified by Red Book VPS 3.
- 1.2 The actual format of the report is at the valuer's discretion. This may vary according to the nature of the instructions and the items to be valued.
- 1.3 The valuation must not be described as a 'certificate of value', 'statement of value', or 'valuation certificate' as these have specific meanings in certain circumstances (see VPS 1, Minimum terms of engagement, description of report).
- 1.4 It is the responsibility of the valuer to ensure that the valuation report clearly and accurately sets out the conclusions of the valuation in a manner that is not ambiguous or misleading, and that does not create a false impression. It must also cover all the matters agreed in the terms of engagement.

2. Suggested template

- 2.1 The example valuation format given here suggests what might be relevant for a particular valuation and deals with the minimum mandatory requirements for financial statements. Individual reports may vary considerably depending on the items valued and the circumstances. In some cases, alternatives can be suggested in order to prompt consideration. Care should be taken to ensure that the report reflects all the matters identified in the terms of engagement, and therefore it should not be considered a fixed format.
- 2.2 Provision is made for recognition of the element of depreciation, where requested by the client for assistance with tax computation.

Valuation of Farm Stocks

AB Farmer & Son

The Farm

Little Village

County

This valuations has been performed in relation to farms stocks on hand as at 31 March 2015

Instructions and terms of reference

- 1 The valuer has received instructions from AB Farmer, dated 15 March 2015 [see Appendix 1], to carry out the farm stocktaking valuation for the business known as AB Farmer & Son as at 31 March 2015, in accordance with the terms of engagement agreed in writing; a copy of which is attached to this report in Appendix 1. The valuer has carried out the inspection and reports accordingly. The valuation is intended for the use of the named client and the client's accountant only.
- 2 The purpose of the valuation is to establish the closing balance of stocks for the purposes of preparation of your annual financial statements. You have instructed us that the accounting standard being applied in your financial statements in relation to stocks is [Statements of Standard Accounting Practice (SSAP) 9, Stocks and long-term contracts / section 13 "Inventories" and section 34 "Agriculture" in FRS 102 issued by the UK's Financial Reporting Council]. (Alter each of these as appropriate).

- 3 The subject of the valuation is the trading stock held and used by the farm business as at the valuation date 31 March 2015.
- 4 The interest to be valued is the relevant assets which are owned, held or available for use by the business.
- 5 The type of asset to be valued comprises the growing and harvested crops, and stores and livestock.
- 6 The basis of value is the lower of production cost and net realisable value, as defined below. Cost has been determined from actual price information supplied by the client together with deemed costs where cost information was not available.
 - 6.1 production cost 'is the actual cost of getting the stock into its condition and location at the balance sheet date'
 - 6.2 where actual costs are not readily available as defined, the deemed cost has been adopted, which is 75 per cent of market value for severed or harvested crops and sheep and pigs, and 60 per cent of market value for cattle
 - 6.3 actual cost (for recently acquired assets)
 - 6.4 net realisable value is 'the sale proceeds that it is anticipated will be received from the eventual disposal of the stock in the condition in which the farmer intended at his balance sheet date subsequently to market it'
 - plus: grants and subsidies intended to augment the sale prices of stocks (for breeding/production animals the ancillary stream of income from the sale of their progeny and produce)
 - less: 'the further costs to be incurred in getting the stock into marketable condition and then marketing, selling and distributing that stock. Where the proceeds from the sale of progeny/produce are brought in then the costs relating to their production and marketing should also be deducted'
 - 6.5 (include where SSAP 9 applies) market value is 'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion' (Red Book VPS 4.1.2)
 - 6.5 (include where FRS 102 applies) market value (ie fair value) is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. In the absence of any specific guidance provided in the relevant section of FRS 102, the guidance in paragraphs 11.27 to 11.32 was used in determining fair value.
- 7 The date of the valuation is the 31 March 2015.
- 8 The valuer <has or has not> had any material previous involvement <if applicable, include details of any previous involvement>.
- 9 The valuer is <name of valuer and firm> and the status of the valuer is <external or internal>.
- 10 The valuation is reported in euro denoted by the symbol €.
- 11 The valuer has made <no special assumptions, or the following special assumptions> and there are no reservations, special instructions or departures from standard procedures (or detail any such assumptions, reservations, etc).
- 12 The valuer <has or has not> inspected the items valued <if applicable, include details of investigations>. The inspection was made on the 16 April 2015.
- 13 The valuer has relied <wholly or partly> on the information supplied by the client as to quantity, quality and general description <include details of the items where the client provided details and where the valuer's own costings have been used>.

- 14 This report is not for publication and is confidential to the client and the client's accountant (include if applicable: and the client's auditors).
<this may vary according to client requirements and reporting requirements, especially for listed companies>.
- 15 No liability is accepted to any party other than the named client <this may vary>.
- 16 The valuation has been carried out in accordance with the current edition of the RICS Valuation – Professional Standards, the Statements of Standard Accounting Practice (SSAP) 9, Stocks and long-term contracts, published by the Accounting Standards Board / FRS 102 issued by the Financial Reporting Council and Irish Revenue guidance on farming stock valuation
- 17 The valuation approach is by use of actual costs; the Central Association of Agricultural Valuers (CAAV) annual Guide to Costings; published costings from <the XYZ Costing Book>, and comparable market evidence for livestock and produce sales <list details any alternative approaches to valuation and sources of reference>. Where requested by the client, the element of depreciation has been identified.
- 18 The valuer confirms that he or she has the knowledge, skill and understanding to undertake this valuation competently.
- 19 The valuation figures are reported in each section of the report, with the basis of value detailed and a summary in words and figures <it is highly likely that the basis of value will vary from section to section and item to item and this should be made clear in the report>.
- 20 The valuation report is signed at the end, as the mandatory requirements require a signature on the report to authenticate it and confirm the valuer.

Valuation

Growing crops

Basis of value: production cost

Description	Quantity/area	Valuation (€)
Winter wheat	22 hectares	
Winter barley	59 hectares	
Oilseed rape	20 hectares	

(The valuer may wish to provide sufficient information to identify the extent and nature of the crops and any special characteristics and reasons, such as disease, for an abnormally high or low valuation.)

Livestock

Basis of value: deemed cost

Description	Quantity/area	Valuation (€)
Suckler cows	78	
Store cattle	151	
Ewes	200	
Rams	2	
Lambs	300	

(The valuer should consider providing sufficient information to identify the livestock in suitable bunches or categories, according to age range or type, and any special characteristics such as pedigree and yields.)

Valuation (continued)		
Produce in store		
<i>Basis of value: production cost</i>		
Description	Quantity/area	Valuation (€)
Wheat	50 tonnes	
Straw	10 tonnes	
<i>Basis of value: net realisable value</i>		
Description	Quantity/area	Valuation (€)
Silage	200 tonnes	
(It may be necessary to comment on the condition of the commodity or suitability of storage.)		
Stores		
<i>Basis of value: actual cost</i>		
Description	Quantity/area	Valuation (€)
34.5N fertiliser	30 tonnes	
Diesel fuel	1500 litres	
Lubrication oil	20 litres	
(The valuer may wish to consider available evidence such as actual receipts to confirm cost.)		
Total		
I am of the opinion that the value of the above farming stocks and assets are as at the valuation date for the purposes only of preparing accounts in the sum of <X hundred> and <XX thousand X hundred> and <XX euros> (of which <€X,XXX> is depreciation).		
Dated		
Signed		<Name of valuer and firm>

2. Appendices to the valuation

2.1 These might, but not necessarily, include the following:

- a copy of terms of engagement form signed by the client
- breakdown of cultivations for growing crops
- comparable evidence; and
- sources of information for costings

Appendix 3: Guidance from Irish Taxation Authorities

Members should note that in their introduction to their document “*Taxation issues for milk production partnerships*”, the Irish Revenue state that the guidance has “no binding force and does not purport to be a legal interpretation of the statutory provisions relating to the taxation of farming profits generally”. The following text forms appendix 2 to that document:

Valuation of Stock in a farm account

The usual basis of valuing stocks held is the cost or the market value, whichever is the lower. Where appropriate, stock valuation arrived at on the following basis is acceptable to Revenue:

1. Stock in trade in a Farm Account includes livestock, livestock produce, and harvested crops.
2. Cost means cost of production. In the case of a home-bred animal this is the cost of rearing and includes the service fee, veterinary fee, animal medicine etc., and part of the general farm expenses such as feeding stuffs, fertilizer, fencing, housing, wages, transport, insurance, loan interest, rent of land etc. For an animal bought in, the cost will include the cost of purchase with a similar increase to cover the expenses of feeding and caring for the animal between date of purchase and the accounting date.
3. To obviate the difficulties that arise in determining the cost of production of animals and harvested crops, the figure for “cost” is to be obtained by taking a percentage of the market value as follows: -
 - Cattle:**
60% of the market value at the accounting date of cattle bred on the farm or purchased as immature stock
 - Sheep:**
75% of the market value at the accounting date of sheep bred on the farm or purchased as immature stock
 - Pigs:**
75% of the market value at the accounting date of pigs bred on the farm or purchased as immature stock
 - Harvested Crops:**
75% of the market value at the accounting date of the harvested crops.
4. Growing crops need not be valued. Fertilizer, which has been spread but, as yet, is unexhausted need not be valued. Fertilizer purchased but not yet spread must be valued at cost of purchase. Home-produced hay, silage, feed roots and fodder for the maintenance of the livestock on the farm need not be valued.
5. **Mature animals:** (that is, breeding stock). A cow is mature following the birth of her first calf. A bull is mature when the animal goes into service.
6. **Immature animals:** All other animals are immature.

Animals that have matured are to be kept at an unchanged valuation at each accounting date subsequent to the date of maturity. Animals that have not matured are to be valued at the closing accounting date at a value which will normally be higher than the valuation at the opening accounting date to reflect the increased value of the animal from weight gained during the 12 months and to reflect a part of the farm expenses claimed elsewhere in the farm account.
7. Breeding stock which is on hands at the opening and closing accounting dates is to be valued at each date at the same figure (that is, at cost) and this valuation is to remain unchanged at succeeding accounting dates. Taxpayers may claim reduction to actual market value when this falls below the valuation previously adopted.

8. Breeding stock, which has been purchased during the year, is to be valued at the next accounting date after purchase at the purchase price. The valuation is to remain unchanged at succeeding accounting dates. Taxpayers may claim reduction to actual market value when this falls below the valuation previously adopted.
9. Breeding stock, which matures during the year, is to be valued at the first accounting date after maturity at 60% of its market value at that accounting date. This valuation is to remain unchanged at succeeding accounting dates. Taxpayers may claim reduction to actual market value when this falls below the valuation previously adopted.
10. Immature animals, which are on hands at the opening and closing dates, are to be valued at 60% of the market value at the opening date and the closing date respectively. These animals are to be valued at succeeding accounting dates at 60% of the market value at the accounting dates in question until the animals mature. After maturity the valuation will be as at paragraph 9.
11. Immature animals, which have been purchased during the year, should be valued at the closing date at 60% of the closing market value. At succeeding accounting dates the animals are to be valued at 60% of the market value at the accounting date in question until the animals mature. After maturity the valuation will be as at paragraph 9.
12. Paragraphs 7 to 11, which apply to cattle, will also apply to sheep and pigs with the substitution of 75% of market value for 60% of market value.

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