

UNIVERSITY OF NEW ENGLAND
DEPARTMENT OF ACCOUNTING AND FINANCIAL MANAGEMENT

**PERCEIVED USEFULNESS OF VARIOUS
MEASUREMENT BASES FOR THE VALUATION
OF LIVESTOCK IN GENERAL PURPOSE
FINANCIAL REPORTS**

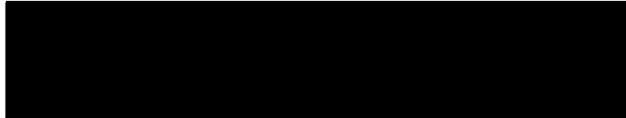
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for the degree of Master of Economics at the University of New
England

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Certification

I certify that the substance of this dissertation has not already been submitted for any other degree and to the best of my knowledge, any help received in preparing this dissertation and all sources used have been acknowledged herein.



Sue Petzke
August 1997

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Abstract

At the present time there is no accounting standard in Australia governing the classification and valuation of livestock, although this topic is currently being addressed by the Australian Accounting Research Foundation, and a discussion paper on financial reporting for self-generating and regenerating assets has recently been released (Roberts et al, 1995).

This research study identifies the most appropriate method for the valuation of livestock in the financial position segment of general purpose financial reports by analysing the requirements of Statement of Accounting Concepts No.2 "Objective of General Purpose Financial Reporting" (SAC2) and Statement of Accounting Concepts No.3 "Qualitative Characteristics of Financial Statements" (SAC3), and by testing the results of the above analysis against what users perceive to be the most useful for decision making.

In Australia and overseas there has been considerable debate about livestock valuation, mostly from a management accounting viewpoint. However much of this debate is also relevant to financial reporting, and will be reviewed for this study.

The study examines various valuation models in terms of both measurement theory and in terms of their perceived usefulness for the valuation of livestock.

A survey of the Top 60 shareholders of selected companies owning livestock, and a similar survey of financial analysts is undertaken to determine their perceptions about the usefulness of the different valuation methods, especially in relation to the valuation of livestock. The results of each of these surveys are compared and contrasted to ascertain whether the perceptions of these groups differ significantly and whether they differ with regard to the valuation of livestock and other assets.

A number of research questions regarding the classification and valuation of livestock are discussed, followed by a number of propositions regarding users' perceptions about the usefulness of the different valuation models. It is found that users are divided about how livestock should be classified, with some favouring classification

of livestock as a current asset, and an equal number favouring classification being dependent on the intended use of the asset. With regard to the issue of valuation, users find modified historical cost (the current method in use in Australia) to be of value as a measurement base for assets in general, however they perceive net current market value to be the most useful measurement base for the valuation of livestock.

With regard to the qualitative characteristics outline in Statement of Accounting Concepts No 3 (SAC3), users believe reliability and comparability to be important in assessing the usefulness of accounting measurements in general, however they ranked reliability and relevance as most important for livestock, with net current market value being perceived as reliable, relevant, comparable and understandable for livestock valuation by the largest percentage of users. In terms of general usage historical cost was rated the most reliable and the most understandable, with current replacement cost the most relevant and the most comparable.

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