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# **CLASSIFICATION AND REPORTING OF LONG-LIVED BIOLOGICAL ASSETS IN MALAYSIAN PUBLIC-LISTED PLANTATION COMPANIES**

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| ARTICLE INFORMATION                                                                                                           | ABSTRACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| Sejarah artikel:<br>Diterima: 9 September 2024<br>Diterima revisian: 30 November 2024<br>Diterima publikasi: 16 Desember 2024 | <i>Malaysia's palm oil industry is a cornerstone of the nation's economic and social development, playing a vital role in political stability and rural progress. Alongside rubber, timber, and aquaculture, these sectors contribute significantly to Malaysia's export economy, employment, and rural development through their biological assets. This study investigates the types of biological assets reported in the financial statements of plantation companies listed on Bursa Malaysia's Main Market. Employing a descriptive analysis, the study explores asset classification and reporting within an agricultural context. The results indicate that all 41 publicly traded plantation companies reported long-lived biological assets throughout the 13-year timeframe (2010–2022). While some companies consistently maintained their original assets, others diversified through the addition of new assets. One company achieved growth by expanding both new and existing assets, whereas another focused solely on new acquisitions. By documenting these patterns, this research enriches the literature on biological asset reporting, offering a comprehensive overview of long-lived asset dynamics within Malaysia's plantation industry.</i> |
| Key words:<br>IAS 41<br>MFRS 141<br>Types of Asset<br>Long-lived Biological Assets<br>Short-lived Biological Assets           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

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## 1. INTRODUCTION

Economic fluctuations in Malaysia are largely attributed to the country's reliance on the growth of trade in primary products, as highlighted by Cabanila (1988). In many developing economies, agriculture forms the foundation of economic structures, and this is especially true for Malaysia, where agriculture plays a dominant role. Malaysia's agricultural sector significantly contributes to foreign exchange earnings, further underscoring its economic importance (Cabanila, 1988). This study focuses on Malaysia, where agricultural exports constitute a significant portion of the country's GDP.

The Malaysian palm oil industry, a key pillar of national pride, stands as one of the world's largest producers and exporters of palm oil and related products. Over the past five decades, this industry has expanded substantially, supporting political and economic stability while enhancing social development (Malaysian Palm Oil Board, 2014). After gaining independence in 1957, Malaysia's economy was primarily reliant on plantation sectors, particularly rubber and tin mining (Simeh & Ahmad, 2001). According to these authors, these two commodities alone accounted for over 50% of the GDP during that period.

By the 1960s, the government recognized the need to broaden the country's economic base and began diversifying into other sectors to stimulate growth. This diversification strategy included initiatives to expand manufacturing and enhance agriculture, with an emphasis on palm oil (Simeh & Ahmad, 2001). The introduction of palm oil to Malaysia's economy in the late 1950s and early 1960s marked a significant step in this diversification program (Mohd Jaafar, 1994, as cited in Simeh & Ahmad, 2001). Supporting this expansion, the Malaysian Palm Oil Board (2014) reported that from 1990 to 2013, Malaysia's agricultural landscape included four major crops: coconut, rubber, palm oil, and cocoa. Of these, palm oil saw the most substantial increase, covering 44% of the area in 1990 and expanding to 82% by 2013, compared to 16% for rubber and 1% each for cocoa and coconut.

Malaysia's economy is highly reliant on sectors that involve biological assets, including palm oil, rubber, timber, and aquaculture. Biological assets are essential in these industries, as they are central to the country's export economy, employment, and rural development. Palm oil and rubber, in particular, are major agricultural products in Malaysia, with the country being one of the world's leading producers. In 2022, agriculture contributed about 7.3% to Malaysia's GDP, and palm oil exports were valued at approximately RM 102 billion (Ministry of Plantation Industries and Commodities, 2023). The significance of biological assets in these sectors underscores the need for transparent and standardized reporting (Tsunogaya et al, 2015).

In addition, Malaysia is one of the world's biggest manufacturers and exporters of palm oils, and its merchandise consistent with the Malaysian Palm Oil Board (MPOB) (2017). The oil palm enterprise plays a vital position in the monetary improvement of the country. This enterprise contributes considerably to gross home product (GDP), gross country-wide income (GNI), forex, and employment (International Trade Administration, 2024). As mentioned via way of means of Department of Statistics of Malaysia (DOSM) (2018), the GD for Malaysia's financial system in 2017 for the rural zone had a double-digit increase of 10.7%, which is the very best increase the reason 0.33 zone of 2011. This increase changed into pushed via way of means of the superb overall performance of oil palm and bolstered via way of means of cattle and different agriculture with an increase charge of 10.7%, which is the very best increase charge compared to the offerings and production zone with increase charge of 6.2 and 5.4% respectively.

In gift years, the oil palm enterprise noticed a marginal development in crude palm oil manufacturing in 2022 from 18.12 (2021) to 18.45 million tonnes and ordinary export extent via way of means of 1.8% to 24.72 million tonnes. Export cost reached a brand new file excessive of RM137.89 billion because of tremendous hike in palm oil prices.

Currently, Malaysia is the world's second-largest producer and exporter of palm oil, following Indonesia (International Trade Administration, 2024). In 2020, Malaysia contributed approximately 26% of global palm oil production and 34% of global exports, highlighting its significant role in the international palm oil market. International Trade Administration, (2024) stated Malaysian palm oil companies also have a big presence in Indonesia and have invested in palm oil refineries in major markets such as Europe, India, China, and the United States. Many of Malaysia's largest and most successful companies are palm oil plantation enterprises where the state holds an ownership share (International Trade Administration, 2024). In other words, the plantation is the backbone of the economy in Malaysia in the agricultural sector.

Because of the importance of this sector, is important to have a particular standard for agriculture; which is IAS 41 or MFRS 141; namely the International Accounting Standard of Agriculture or Malaysian Financial Reporting Standard of Agriculture. The purpose of IAS 41 or MFRS 141 is to standardize the accounting valuation of biological assets and to make the important of reporting of biological assets.

## **2. LITERATURE REVIEW**

Understanding the types of biological assets, a company holds whether short-lived or long-lived is crucial for several reasons, particularly in industries like agriculture, forestry, and

aquaculture. Short-lived biological assets, such as crops or livestock raised for immediate consumption, typically have quicker turnover and contribute to short-term revenue generation. In contrast, long-lived biological assets, such as orchards, plantations, or breeding stock, represent long-term investments that require sustained maintenance but provide value over extended periods. Differentiating between these asset types allows for better financial planning, risk assessment, and resource allocation.

Furthermore, accurate reporting of biological assets is vital for stakeholders, including investors, regulators, and policymakers, who rely on clear and consistent information to assess company performance, resource sustainability, and environmental impact (Elad, 2004). The use of fair value accounting under standards such as MFRS 141 (aligned with IAS 41) requires companies to account for the biological transformation and market value of living assets, which presents unique challenges (Argilés et al., 2011). For investors, precise reporting on biological assets is crucial for evaluating the financial health and long-term asset sustainability, particularly given the sensitivity of these industries to environmental fluctuations and global market demands (Tsunogaya et al, 2015; Miarons Blanco 2019).

Despite the importance of biological assets, Malaysian palm oil companies work within regulations that require them to report their assets according to the guidelines of MFRS 141 (aligned with IAS 41). This involves disclosing the value of assets such, as livestock and crops to ensure compliance with standards and improve transparency for stakeholders assessing performance accurately. Given the complexities in valuing assets that can be influenced by market fluctuations and environmental factors such as changes, companies must provide detailed information, on the specific types of biological assets they hold.

Clear identification and classification of biological assets help stakeholders such as investors, analysts, and regulators to understand the financial health and asset composition of plantation companies (Elad and Herbohn, 2011). Since biological assets, such as palm oil plantations, rubber trees, and aquaculture products, have unique growth cycles and market values, they carry different risks and return potentials. Accurate identification aids in assessing the reliability of a company's income and asset valuation, providing insight into operational stability and future cash flows. Understanding the specific types of biological assets aids plantation companies in making informed strategic decisions. Different biological assets require tailored management practices, from pest control to soil management, which affect long-term productivity and asset valuation. For instance, a plantation primarily focused on rubber trees may face different challenges and opportunities compared to one focused on palm oil, influencing decisions on investment and resource allocation.

Despite the regulatory requirements and the significance of biological assets in Malaysia's plantation sector, there is limited research specifically examining the types of biological assets held by companies and their associated financial reporting practices. This gap makes it difficult for stakeholders to fully evaluate these companies' compliance, financial stability, and environmental stewardship. Addressing this gap by identifying and classifying biological assets can contribute to more accurate financial reporting, improved transparency, and better-informed strategic decisions within the sector. Building on the issues discussed above, this study seeks to investigate the types of biological assets disclosed in the financial statements of Malaysian plantation companies. The analysis employs a descriptive approach to provide insights into reporting practices and the characteristics of these assets within the industry.

### **3. RESEARCH METHOD**

Given this information, this study aims to examine the types of biological assets Malaysian companies report in financial statements. By identifying the types of biological assets, this research seeks to contribute to a better understanding of how these assets are managed and reported in the Malaysian context. This study is only focused on descriptive only. This study will select all firms listed on the Main Market of Bursa Malaysia (previously known as Kuala Lumpur Stock Exchange-KLSE) as the initial population. The selection of the public listed on the main board of Bursa Malaysia as a sample frame is because this market has a stricter adherence to the main market plantation companies. For data selection, this study uses the purposive type of non-probability sampling, which involves selecting cases that will best enable the researcher to answer the research questions and meet the objectives (Saunders et al., 2009).

The study population is taken from countries that converge with IFRS. Then, to make the sample more specific, the countries' adoption of IAS 41 is chosen and the samples are from agriculture companies. The agriculture companies represent the purposive type of non-probability sampling. These companies were selected because they adhere to IFRS reporting their financial statements. In addition, IAS 41 was imposed only on publicly listed agriculture companies. Thus, 41 of the publicly listed companies on the Malaysian plantation were chosen for this particular study.

This study focused only on the descriptive result. Consistent with past studies, this study covered the period from 2010 to 2022 because of the data availability and reliability (Al-Matari, 2020). The period from 2010 to 2022 was selected to provide comprehensive insights into the types of assets companies possess during this timeframe. This analysis examines whether

companies introduce new types of biological assets or maintain their existing assets. The following presents the descriptive results regarding the types of biological assets held by plantation companies during the period 2010–2022.

### 3.1. Findings

The descriptive statistics for the agricultural sector of the company encompass observations from 530 companies spanning the years 2010 to 2022. This analysis focuses on the types of assets held by 41 companies. A thematic approach is employed in conducting the descriptive analysis. There are 41 publicly listed companies, as detailed in Table 1.1, that primarily engage in the plantation business in Malaysia.

Table 1.1 Number of publicly listed agriculture companies

| Types of asset                      | Number of the companies |
|-------------------------------------|-------------------------|
| Public listed agriculture companies | 41                      |
| Total of companies                  | 41                      |

This descriptive analysis aims to identify the types of biological assets (BA) that companies possess to determine whether plantation companies have short-lived or long-lived BAs. Biological assets are categorized into two types: short-lived and long-lived. Short-lived assets are defined as those with a lifespan of 3 to 5 years and a harvest period of no more than one year.

In contrast, long-lived biological assets have a lifespan ranging from 5 to 50 years, and they can extend beyond 50 years. This long-lived BA usually takes many years to harvest. Scale employs the theme approach for references 1 (long-lived biological asset) and 2 (short-lived biological asset). This results are depicted in table below. A summary statistic shows the means of each variable in descriptive analysis (refer to table 1.2). Next, table 1.3 shows the acronym of these variables.

Table 1.2 Summary of Descriptive statistics

| Variable    | Obs | Mean  | Std. Dev. | Min | Max |
|-------------|-----|-------|-----------|-----|-----|
| ASSET TYPE  | 530 | 1     | 0         | 1   | 1   |
| ASSET LLIVE | 530 | 1.706 | .456      | 1   | 2   |

|               |     |       |      |   |   |
|---------------|-----|-------|------|---|---|
| ASSET MTNANCE | 530 | 2.877 | .454 | 1 | 3 |
|---------------|-----|-------|------|---|---|

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Table 1.2 refers to descriptive statistics for the whole. There are three variables namely; ASSET TYPE, ASSET LLIVE and ASSET MTNANCE. ASSET TYPE refers to what types of assets a company has. The asset type mean value is 1; the minimum value is 0; and the maximum value is 1. For ASSET LLIVE mean value is 1.706; meanwhile minimum value is 1 and the maximum value is 2 respectively. Lastly, ASSET MTNANCE shows a mean value of 2.877; the minimum value is 1; and the maximum value is 3.

Table 1.3 outlines the variables and their corresponding acronyms, focusing on three primary aspects: ASSET TYPE, ASSET LLIFE, and ASSET MTNANCE. ASSET TYPE identifies the types of biological assets owned by companies, categorized into SHORTLIVEDBA (short-lived biological assets) and LONGLIVEDBA (long-lived biological assets).

ASSET LLIFE refers to the number of long-lived biological assets a company possesses, categorized as LL1ASSET (a single long-lived biological asset) and LLMOREASSET (multiple long-lived biological assets). Lastly, ASSET MTNANCE tracks changes in biological assets over 13 years (2010–2022). This variable includes three categories: ASSET MTNANCE, which indicates an increase in new assets while maintaining existing ones; ASWITHOTMAINTED, representing an increase in new assets without maintaining existing ones; and NOCHANGES, indicating no increase or changes in the assets during the specified period. This classification provides a comprehensive framework for analysing the management and composition of biological assets in the companies studied.

Table 1.3 Name of variable and acronym of variables

| Name of variable             | Acronym variables |
|------------------------------|-------------------|
| <b>ASSET TYPE</b>            |                   |
| Short-lived Biological asset | SHORTLIVEDBA      |
| Long-lived biological Asset  | LONGLIVEDBA       |
| <b>ASSET LLIVE</b>           |                   |

|                                                                    |                |
|--------------------------------------------------------------------|----------------|
| Long-lived one asset                                               | LL1ASSET       |
| Long-lived more one asset                                          | LLMOREASSET    |
| <b>ASSET MAINTAINED</b>                                            |                |
| Increases<br>-new asset with maintained in existing asset          | ASETMAINTAINED |
| Increases<br>-new asset without maintained existing asset<br>asset | ASWTHOTMAINTED |
| No increase and no changes in asset                                | NOCHANGES      |

Next table shows the tabulation of each variables. The 41 plantation companies that were subject to the asset type examination all have long-lived biological assets, according to the results. The percentage of companies with assets is depicted in the pie chart below (Figure 1.1) and table tabulation under theme of asset type (refer Table 1.4).

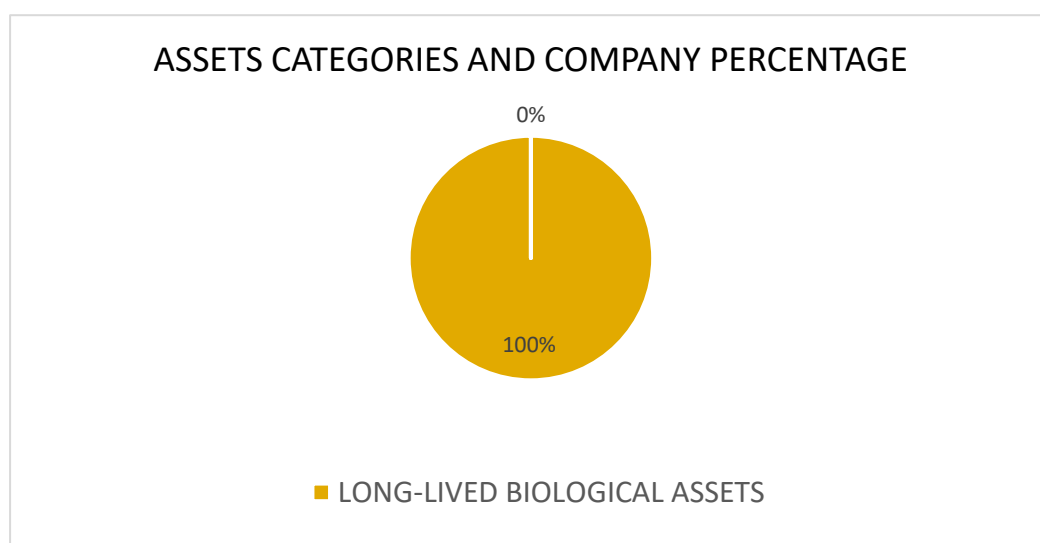


Figure 1.1 Assets Categories and Company Percentage

Table 1.4 Tabulation of ASSET\_TYPE

| ASSETTYPES      | Freq. | Percent | Cum.   |
|-----------------|-------|---------|--------|
| LONG LIVE ASSET | 530   | 100.00  | 100.00 |
| Total           | 530   | 100.00  |        |

The results above are referring 41 plantation companies that have types of long-lived biological assets, which come out 100% under the category of long-lived biological asset types. The computation is performed as follows;

|                                             |
|---------------------------------------------|
| <b><u>The Number of companies</u> X 100</b> |
| <b>Total of companies</b>                   |
| <b>41/41 X 100 = 100%.</b>                  |

For short-lived biological assets, which is zero percent, the result is displayed in a pie chart and tabulation of asset types. Another key finding from these results pertains to the number of long-lived biological asset types owned by the 41 companies. As shown in Table 1.5, the findings indicate that these companies possessed multiple assets within the long-lived biological asset category.

Table 1.5 Tabulation of ASSET\_LLIVE

| ASSETS_LOONGLIVE           | Freq. | Percent | Cum.   |
|----------------------------|-------|---------|--------|
| LONG LIVE 1 AND MORE ASSET | 156   | 29.43   | 29.43  |
| LONG LIVE 1 ASSET          | 374   | 70.57   | 100.00 |
| Total                      | 530   | 100.00  |        |

The table tabulation above refers to the percentage of long-lived biological assets owned by plantation companies from 2010 to 2022. From the 41 plantation companies, it can be shown that 70.57 % are long-lived with just one asset, whereas 29.43% are long-lived with many assets. The following formula is used to calculate;

|                                                                                                      |
|------------------------------------------------------------------------------------------------------|
| <b><u>The number of companies (long-lived of 1 asset and long-lived more than 1 asset)</u> X 100</b> |
| <b>Total of companies</b>                                                                            |

Table 1.6 Tabulation of ASSET\_MTNANCE

| ASSET_MAINTA             | Freq. | Percent | Cum.   |
|--------------------------|-------|---------|--------|
| ASSET MAINTAINED         | 26    | 4.91    | 4.91   |
| ASSET WITHOUT MAINTAINED | 13    | 2.45    | 7.36   |
| NO CHANGES               | 491   | 92.64   | 100.00 |
| Total                    | 530   | 100.00  |        |

Another finding from this descriptive analysis showed that, between 2010 and 2022, three out of 41 companies had asset adjustments. The two asset classes are increased new asset with maintained in asset and increased new asset without maintained in asset. Table 1.6 shows the tabulation of ASSET\_MTNANCE with percentage. The theme of ASSET-MTNANCE has three categories namely asset maintained with 4.91%, asset without maintained with 2,45%, and no changes with 92.64% respectively. Meanwhile, Tables 1.7 and 1.8 show the lists of the two asset classes and the number of firms.

Table 1.7 Number of companies with changes in asset over the years

| <b>Changes in assets over the years (2010-2022)</b>                | <b>Number of companies</b> |
|--------------------------------------------------------------------|----------------------------|
| Increases<br>-new asset with maintained in existing asset          | 2                          |
| Increases<br>-new asset without maintained existing asset<br>asset | 1                          |

Table 1.8 Number of companies with no changes in assets over the years

| <b>No changes in assets over the years (2010-2022)</b> | <b>Number of companies</b> |
|--------------------------------------------------------|----------------------------|
|                                                        |                            |

|                      |    |
|----------------------|----|
| No increase in asset | 38 |
|----------------------|----|

Two companies are categories that increase new assets while maintaining existing assets, as shown in Table 1.7. This indicates that the company has a variety of long-lived assets, all of which have remained in place as of the collection of data over the years. Another category, meanwhile, involves adding new assets without maintaining the existing ones. For instance, the business replaced one asset with a new asset. Table 1.9 will go into greater depth about this. The remaining 38 companies (see Table 1.8) fall into the category of no changes in assets over the years. The following table 1.9 displays the names of three companies along with different asset types and asset changes over the years.

Table 1.9 The names of the companies and the assets types and changes from 2010 to 2022

| <b>Companies</b> | <b>Years</b> | <b>Types of asset- more than two asset</b> |
|------------------|--------------|--------------------------------------------|
| SM               | 2010-2013    | A                                          |
| SM               | 2014-2022    | A+B+C                                      |
| TSHR             | 2010-2012    | D                                          |
| TSHR             | 2013-2022    | A+B                                        |
| PLSP             | 2010-2018    | A+E+F                                      |
| PLSP             | 2019-2022    | A+E+F+G                                    |

|                                         |                            |                |                           |                 |                               |                                |
|-----------------------------------------|----------------------------|----------------|---------------------------|-----------------|-------------------------------|--------------------------------|
| <b>A=</b><br><b>PALM</b><br><b>TREE</b> | <b>B=</b><br><b>RUBBER</b> | <b>C=CANES</b> | <b>D=</b><br><b>COCOA</b> | <b>E=ACACIA</b> | <b>F=KARAS</b><br><b>TREE</b> | <b>G=DURIAN</b><br><b>TREE</b> |
|-----------------------------------------|----------------------------|----------------|---------------------------|-----------------|-------------------------------|--------------------------------|

The names of the companies with the various asset changes between 2010 and 2022 are displayed in Table 1.9. From 2010 through 2013, SM, the first business, owned palm trees. Under the category of long-lived biological assets, SM adds two plants or assets in the years 2014 to 2022: rubber and canes. There are three plants in total for SM.

Additionally, TSHR had a cocoa plant from 2010 to 2012. However, the company stopped planting the cocoa plant and replaced it with two other plants: a palm tree and a rubber tree. This study classifies these assets as newly added assets that have not been maintained over time (see Table 1.9). Consequently, TSHR has a total of two plants.

The next company is PLSP. This company has three plants, a palm tree, an acacia tree, and a karas tree, which it has from 2010 to 2018. In two years, this company adds another plant, a durian tree (2019-2022). There are four assets or plants in total for the PLSP company. SM and PLS Plantation are two companies where asset numbers have changed over the past year as a result of both asset increase and asset maintenance. TSHR is increasing assets without maintaining them in the meantime. The three companies with asset changes over the years are summarised in Table 1.9.

### **3.2. Discussion and Conclusion**

The Malaysian palm oil industry, as one of the world's leading producers and exporters, stands as a vital contributor to the nation's political and economic stability as well as to social development over the past five decades. Given Malaysia's reliance on sectors rich in biological assets such as palm oil, rubber, timber, and aquaculture, these assets are essential to the country's export economy, employment, and rural development. This study examined the types of biological assets reported by Malaysian plantation companies in their financial statements, employing a descriptive approach to understand asset classification and reporting practices within this crucial sector.

Using companies listed on the Main Market of Bursa Malaysia, a market known for its stringent compliance standards as the sample frame, this study provides a comprehensive overview of long-lived biological assets in Malaysian plantations. Focused solely on identifying the types of biological assets held by plantation companies over 13 years, this descriptive study aims to document and reveal trends in asset holdings within the plantation sector. It does not address or propose solutions related to IAS 41 compliance but instead emphasizes understanding the classification and reporting of these assets.

Key findings reveal that all publicly listed plantation companies hold long-lived biological assets, with some firms reporting a single type while others expanded their asset base over 13 years (2010–2022). Specifically, two companies demonstrated both the addition of new assets and the maintenance of existing ones, one company introduced new assets without sustaining prior ones, while other firms consistently retained their original assets.

Understanding the types of biological assets held by plantation companies is essential for several reasons. First, it enables more precise financial reporting and compliance with standards such as MFRS 141, which is critical for stakeholders seeking transparency and consistency in asset valuation. Clear asset identification also enhances the accuracy of asset valuations, enabling investors, analysts, and regulatory bodies to make well-informed assessments of company performance and resource sustainability.

Furthermore, knowledge of asset types assists in strategic planning and resource allocation. Each type of biological asset whether palm oil, rubber, timber, or aquaculture carries unique growth cycles, risks, and management requirements, impacting long-term profitability and operational stability. By clearly categorizing these assets, companies can make more effective decisions regarding resource management, asset diversification, and investment, ultimately optimizing their portfolio to support sustainable growth.

For instance, Kadri et al. (2023) highlighted the relevance of fair value measurement in accurately assessing the economic impact of these assets in Malaysian agricultural companies. Long-lived biological assets, due to their extended lifecycle, are more susceptible to environmental and economic risks, such as climate change or market volatility. Understanding the proportion of short-lived and long-lived assets can help stakeholders evaluate the company's resilience and adaptability to such risks. Similarly, Aliana (2014) found that disclosure practices under MFRS 141 improved transparency in reporting biological assets, which in turn supports better decision-making by investors and managers. Knowing the types of assets also aids in regulatory compliance and reflects the true value of a company's operations, which is critical for maintaining investor confidence and ensuring sustainable growth.

In sum, identifying asset types is not merely a compliance exercise; it provides plantation companies with a foundation for strategic, operational, and financial decision-making, enhancing resilience in a sector where asset lifecycles and environmental factors play pivotal roles. This study contributes to the literature on biological asset reporting, offering a clear, descriptive account of asset types within Malaysia's plantation sector. In doing so, it adds to the understanding of the valuation and management practices of long-lived biological assets, offering stakeholders valuable insights into the asset profiles of public plantation companies in Malaysia.

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