

PRACTICAL ASPECTS ON THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS 41 - AGRICULTURE

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Abstract: *Activities in agriculture imply a wide variety of activities: eg animal husbandry, fruit growing, forestry, fish farming. In this context, however, we have some common elements: the ability to modify, modify and modify the modification. The international accounting stamp 41-Agriculture is the one that shows the accounting treatment and information presentations for agricultural activities.*

Key words: *agricultural activity, agricultural production, biological asset, government subsidies, recognition and evaluation, active market*

INTRODUCTION

Although agriculture is an important part of the world economy, accountancy in agriculture still has many gaps. The adoption of the International Accounting Standard 41-Agriculture attempted to improve this state of affairs and to increase the comparability of the financial statements of the entities in the agricultural sector. Although controversial, International Accounting Standard 41-Agriculture is the first step of a consistent transition to fair value measurement in the agricultural sector. Romanian accounting regulations comply with European directives and, in many respects, converge with the IFRS reference, but the provisions of IAS 41 are not directly reflected in Romanian regulations. With the increasing number of forest and foreign land transactions in livestock farms, it is expected that recognition and measurement of biological assets in accordance with IAS 41 will become a necessity.

MATERIALS AND METHODS

IAS 41 deals with the management of the transformation of biological assets. Biological assets include any living or live animal. Biological transformation is the process of growth, aging, production and procreation of biological assets. This transformation leads either to an agricultural product or to a change in the biological asset. Recognition of biological assets and agricultural products is made when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits associated with the asset will enter the entity; and
- the fair value or cost of an asset can be measured reliably.

At the beginning of the accounting and at the close of each exercise, the biological assets must be valued at their fair value less estimated sales expense. In determining the fair value, the standard establishes a hierarchy of approaches. First, the fair value corresponds to the price on an active market. An active market is a market where the following conditions are met:

- the commodities traded on that market are homogeneous;
- there are at all times buyers and sellers informally and
- prices are available to the public.

Secondly, in the absence of an active market, fair value can be estimated in various ways: in relation to the price charged on recent transactions; In relation to the market prices

of similar assets adjusted to take account of differences; By reference to the criteria commonly used in the sector.

Third, if market-based prices are not available for biological assets, the entity may determine fair value by updating the expected cash flows from the asset using a rate determined by current market conditions. For this purpose, IAS 41 provides for the following rules:

- potential increases in the value of biological assets as a result of additional biological transformations and future entity activities, such as future improvement of biological transformation, harvesting and sale, will be excluded;
- cash flows for financing assets, taxes, or for the recovery of biological assets (e.g. the cost of replanting trees harvested in a forest plantation) will not be included; and
- estimates of possible variations in cash flows will be included either in the estimated cash flows, either in the discount rate or in a combination of the two [1].

IAS 41 admits, however, an exception to the fair value measurement. Thus, if at the time of the initial accounting of a biological asset there is no market price and the other fair value estimation methods are not reliable, that asset may be valued at the acquisition or production cost less the depreciation and depreciation. However, this exception ceases to apply if a reliable estimate of fair value can then be made. Biological effects are sometimes physically attached to the land on which they are located (for example, trees in a plantation). Often, there is no separate active market for these assets, but there is an overall market (land and plantation). In such a case, plantation can be evaluated by deducting the fair value of the empty field from the price of the whole.

The gain or loss that arises on the initial recognition of a recognized biological asset at fair value less estimated sale costs and fair value less costs to sell should be included in the result of the year in which they arise. Subsidies related to biological assets measured at fair value should be accounted for as income when all the conditions for awarding grants are met. If a government grant is granted for a biological asset measured at cost minus any cumulative depreciation and any accumulated impairment losses, IAS 20 Accounting for government grants and disclosure of government assistance information is applied.

In Romania, financial accounting is oriented in two different directions. A number of groups and companies apply International Financial Reporting Standards (IFRS), including IAS 41. Most companies apply the provisions of the Order of the Minister of Public Finance no. 1802/2014. These regulations are in line with the Council of Europe's Fourth Council Directive 78/660 / EEC on the Annual Accounts of Certain Types of Companies and the Council of Europe's 83/349 / EEC Guideline on Consolidated Accounts. The general criteria for asset recognition in national regulations are taken from the international conceptual design and presentation of financial statements. Thus, in terms of biological assets, in Romanian regulations, they are found both in the category of fixed assets and in the category of current assets [2].

Biological assets that are recognized as non-current assets do not have a particular pattern, they funded treasury as well as other corporate assets. Recognition initials are made at acquisition cost or cost of production, as appropriate, and recognition in cost at cost less accumulated depreciation and accumulated impairment provisions. Although in the Romanian accounting regulations there are alternative valuation rules for corporate immobilizations, animals, plantations and other biological assets have traditionally not been presented in the balance sheet at fair value.

Biological assets recognized as current assets are included in the inventory category. It is specified that stocks are born and young animals of all kinds (calves, lambs, piglets, foxes and others) bred and used for breeding, the animals and birds to be harvested for recovery, the bee colonies and the animals for production - wool, milk and fur. In the case of cereal crops, during the production cycle, from the setting up of crops to grain harvesting, accountancy is treated as products to be executed and the crops as stocks of finished products.

Inventories are valued using historical cost model. According to this model, the assets are initially recognized at cost and in the balance sheet are presented as a minimum of the cost and the value that can be obtained from their sale or use.

It is obvious that, in terms of biological assets, there are significant differences between Romanian accounting regulations and international accounting regulations. In a synthesized form, these differences refer to:

- the use of different valuation models: the historical cost in Romania and the fair value less estimated cost of sale in IAS 41;
- clarifications on the concept and content of biological assets: While IAS 41 clarifies the concept and content of biological assets, Romanian regulations do not contain any particular provisions for this asset category.
- informal presentation IAS 41 distinguishes between items that must be presented in the main financial statements and those that make such disclosure either on the face of the balance sheet or in the explanatory notes. Biological assets are one of the elements that must be presented in the balance sheet, with the possibility of detailing it in the notes. In addition, IAS 41 establishes a list of information to be provided (aggregate gain or loss over the current period arising from the initial recognition of biological assets and agricultural products, and changes in fair value less costs to sell biological assets); Narrative or quantified description of each group of biological assets, information about biological assets that are limited to property rights or are offered as collateral for debts, methods and hypotheses for determining fair value, etc.). In Romania, the form of the financial statements is standardized, only in the explanatory notes it is possible to present informally in a private manner. As a result, in the balance sheet, information on biological assets is contained in two headings: "Animals and Plantations in the Fixed Assets category" and "Animals, Output and Harvests" [1].

It can be assumed that if national regulations do not address aspects of IFRS, IFRS standards may be used as a reference. However, I consider that although there are large entities in agriculture that are engaged in agricultural activities, they are not interested to apply voluntarily the provisions of IAS 41 for the time being. This attitude can be explained by fiscal considerations, by the small number of specialists on international accounting in the agricultural sector And lack of guidance on evaluation techniques. The agricultural sector is an important part of the world economy. However, agricultural accounting and evaluation guides in this sector still have many gaps. IAS 41 is an attempt to improve this situation and increase the comparability of the financial statements of agricultural companies. Its implementation in various countries has led to a radical change in the accounting practices of large agricultural companies by moving from historical costing to fair valuation.

The main shortcomings relate to:

- the cost of valuing biological assets at fair value exceeds the gain gained from this valuation;
- the fair value measurement method described in IAS 41 increases the volatility of earnings;

- choosing an update rate to assess biological assets involves a subjective judgment. However, IAS 41 remains the first step of a consistent transition to fair value measurement in the agricultural sector.

In Romania, agriculture is a sector with considerable potential, traditionally having an important place in the structure of the national economy. However, IAS 41 is not directly reflected in Romanian regulations. If we take into account the large forests bought by foreign investment funds and the many foreign investments invested in livestock farms, it is to be expected in the near future and in Romania that the application of this standard is considered necessary. There are enough possibilities to develop research in this area. IAS 41 prescribes the accounting treatment, presentation of financial statements and disclosure of agricultural activities, a topic that has not been addressed by other Standards. Agricultural activity is the way an entity transfers live animals or plants (biological assets) for sale to agricultural products or other additional biological assets.

Among other things, IAS 41 prescribes the accounting treatment of biological assets during their growth, degeneration, production and reproduction, as well as for the initial assessment of agricultural production at harvest time. It requires fair value valuation less estimated point-of-sale costs from initial recognition of biological assets to harvesting, differently from the applied method when fair value can not be measured reliably at the date of recognition. However, IAS 41 does not deal with the processing of agricultural production after harvesting: for example, the process of transforming grapes into wine or wool. It is assumed that the fair value of a biological asset can be reliably measured. However, this hypothesis can be rejected only on the initial recognition of a biological asset for which the prices or values determined on the market are not available and for which the alternative estimates of fair value are determined in such a way that they can not be credited. In this case, IAS 41 requires an entity to measure that biological asset at cost or less any accumulated amortization and any accumulated impairment losses.

Once the fair value of such a biological asset can be measured reliably, an entity shall measure it at fair value less costs to the point of sale. IAS 41 requires the inclusion of any change in fair value less costs to the point of sale of a biological asset in its profit or loss in the period in which it occurs. In agricultural activity, a change in the physical attributes of an animal or plant increases or decreases directly the economic benefits of the entity. A nursery that applies a historical cost model to a transaction may not report profit until the first harvest and sale, perhaps 30 years after planting. On the other hand, by applying an accounting model that recognizes and evaluates biological development using current fair values, its changes are related to the entire time between planting and harvesting. IAS 41 requires an unconditional government grant for a biological asset measured at fair value less estimated point-of-sale costs to be recognized as income then, and only when the government grant becomes eligible.

If a government grant is conditional, including where a grant is conditional on non-engagement in specified agricultural activities, an entity must recognize that grant as income then and only when the conditions for granting the grant are met. Government grant is related to a biological asset measured at cost minus any accumulated depreciation and any accumulated impairment losses, IAS 20 Accounting for Government Grants and disclosure of government-related information applies.

The objective of this Standard is to prescribe accounting treatment and disclosures information related to agricultural activities.

This Standard shall be applied for the accounting of the following items when they relate to agricultural activities:

- (A) biological assets;

- (B) agricultural production at the point of harvest; and
 (C) government subsidies.

Below we present a table with examples of organic agricultural products and products resulting from the post-harvest processing.

Table 1.

Organic agricultural products and products resulting from the post-harvest processing

Biological assets	Agricultural products	Processed products after harvesting
Sheep	Fur	Carpets
Trees in a Nursery	Logs	Timber
Cows	Milk	Cheese
Cotton plants	Cotton	Clothes
Sugar Plant	Sugar	
Pigs	Carcasses	Ham
Wine vine	Grapes	Wine

RESEARCH RESULTS

Agricultural activity covers a variety of activities; For example, animal breeding, perennial and annual crops, fruit growing and other plantations, floriculture, forestry, fish farming (including fish breeding).

In this diversity, however, there are some common features:

- The ability to modify. Live plants and animals are capable of biological transformation;
 - Administration of the change. The mode of administration facilitates the biological transformation by increasing or at least stabilizing the necessary conditions for the process (e.g. nutritional level, humidity, temperature, fertility and light). The way of administration makes the agricultural activity distinguish from other activities. For example, harvesting products from unmanaged resources (such as ocean fishing or deforestation) is not agricultural activity; and
 - Assessment of the degree of change. Quality changes (e.g. density, degree of baking, fat content, protein content and fiber resistance) or quantity (e.g. number of pigs, weight, cubage, fiber length or diameter and number of buds) Determined by biological transformations is evaluated and monitored as a routine function of administration.

The following types of products result from the biological transformation:

Changes in assets through

- increase (increase in quantity or improvement of cauliflower of an animal or plant),
- degeneration (a decrease in quantity or a deterioration in the quality of an animal or plant), or
- reproduction (creation of live animals or additional plants); or
- obtaining agricultural products such as latex, tea, wool or milk.

In agricultural activity, control can be evidenced, for example, by the legal possession of cattle and their marking or, otherwise, by marking them at the time of acquisition, birth or weaning. Future benefits are normally measured by measuring significant physical attributes. A biological asset will be valued at the recognized recognition and at each date of the balance sheet at fair value less estimated point-of-sale costs.

The harvested crops will be valued at fair value less costs at the point of sale at the time of harvest. Such an assessment is the cost at the date when IAS 2 Inventories or other Standard applies.

Point-of-sale costs include broker and dealer fees, regulatory and commodity fees, and transfer and customs fees. Point-of-sale costs exclude transportation and other costs to bring assets to the market.

Entities often conclude contracts to sell their biological assets or agricultural products at a later date. Contract prices are not necessarily relevant to determining the fair value because the fair value reflects the value on the current market for which a transaction is concluded between a seller and an interested buyer. As a result, the fair value of a biological asset or agricultural product is not adjusted due to the existence of a contract. In some situations, a sale contract for a biological asset or agricultural product may constitute an onerous contract as defined in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 applies to onerous contracts.

CONCLUSIONS

I think there are two fundamental differences, namely:

- According to the International Accounting Standard 41-Agriculture, the amortization of biological assets begins at the date when the biological assets are held by the entity in the desired manner of management, practically from the date of receipt and not from the following month;
- According to the International Accounting Standard 41-Agriculture, the depreciable amount is the cost or, as the case may be, the fair value less the residual value of the asset, in accordance with paragraph 33 of the International Accounting Standard 41-Agriculture collated with IAS 16 Property, Accounting regressions compliant with European directives, the cost of acquisition or the revalued valuation without taking into account the residual value is the amortizable amount.

REFERENCES

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