AGRICULTURE - PERSPECTIVES AND PROBLEMS IN TERMS OF INTERNATIONAL ACCOUNTING STANDARDS

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Abstract: *During its existence, International Standards of Accounting and Financial Reporting have been focused on developing and implementing existing standards on financial reporting in general. From a historical point of view, agricultural activities have received too little attention from world norms of international accounting standards.In the past, the lack of generalization by the king in dealing with this subject was compensated only by the fact that a large part of the agricultural activities were represented by family businesses, which had very few outside owners, who could ask for financial information prepared according to the generally recognized accounting principles. Agriculture should primarily be defined as managing the biological transformation of plants and animals to produce a result for being consumed or for further processing.*

Key words*: active market, agricultural activity, biological asset, accounting value*

INTRODUCTION

The importance of the agricultural branch in the national economy is significant. Thus, in the year 2017, the value of the agricultural branch production amounted to 78,494,105 thousand lei in current prices, representing an increase of 112.5% compared to the results of 2016 [3]. In 2017, the structure of production value did not show significant changes compared to the previous year. The share of vegetable production was 67.8%, the share of animal production was 31.0%, and agricultural services had a weight of 1.2%.

The structure of the value of vegetal production, by main crops, did not show any significant changes in 2017 compared to the previous year. The share of olive oil crops and other product groups increased by 1.3 percentage points and 1.7 percentage points respectively. The weight of crop and vegetable crops (including melons) decreased by 1.4 percentage points and 1.0 percentage points respectively [13].

Although agriculture is an important part of the world economy, accountancy in agriculture is still lacking. The adoption of IAS 41 has attempted to improve this state of affairs and increase the comparability of the entity's financial situation in the agricultural sector. Although controversial, IAS 41 is the first step in a consistent transition in fair value measurement in the agricultural sector [2]. Romanian accounting regulations comply with European directives and in many respects converge with the IFRS reference. The provisions of IAS 41 are not, however, directly reflected in Romanian regulations. With the increase in forest land transactions and foreign investment in farm animals, 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 live or live plant. Biological transformation is the process of growth, aging, production and procreation of biological assets. This transformation leads either to the occurrence of an agricultural product or to a change in the biological asset. Recognition of biological assets and agricultural products is done when: the enterprise controls the asset as a result of past events or is likely to have future economic benefits associated with the asset entering the enterprise and the fair value or cost of the asset can be reliably measured [3].

At the initial accounting and at the close of each exercise, the biological assets should be valued at their fair value less estimated selling expense. For determining the fair value, the standard establishes a hierarchy of approaches. An active market is a market where the following conditions are met: (i) the commodities traded on that market are homogeneous; (iii) buyers and sellers of information are available at all times, and (iii) prices are available to the public[16]. Secondly, in the absence of the 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[6]. 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 the purpose of calculating this value, IAS 41 provides for the following rules: (i) to exclude potential increases in the value of biological assets as a result of additional biological transformations and future activities of entities, such as improving future biological transformation, harvesting and selling; (ii) not include cash flows for financing assets, taxes, or for the rehabilitation of biodiversity assets (eg the cost of tree re-planting after harvesting in a forestry plant); and (iii) estimates of possible variations in cash flows will be included either in cash flow estimates either in the update in either one or two combinations.

The IAS 41, however, admits 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, the plantation can be measured by deducting the fair value of the bare land in the aggregate price. The amount or loss that occurs at the initial recognition of a recognized biological asset at fair value less costs to sell and the change in fair value less costs estimated sales should be included in the result of the year in which they occur [7].

Subsidies related to biological assets measured at fair value must 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 less any cumulative depreciation and any impairment loss, 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 societies apply International Financial Reporting Standards (IFRS), including IAS 41. Most companies apply the provisions of the Order of the Minister of Public Finance no. 3055/2009. 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 83/349 Council Directive 83/349 / EEC on consolidated accounts. At the same time, Romanian accounting regulations are convergent, for a number of issues, with the IFRS reference.

Criteria for asset recognition in national regulations are taken from the international conceptual design and presentation of financial statements [1]. The provisions of IAS 41 are not, however, directly reflected in the Romanian regulations. Thus, in terms of biological assets, Romanian regulations are found both in the category of fixed assets and in the category of current assets [17]. The biological effects that are recognized as immobilized assets do not have a particular regime, they fund treatises in accounting terms just like other corporate assets. Recognition initials are made at acquisition cost or cost of production, as appropriate, and recognition in the cost-of-benefit minus 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[8].

The 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) raised and used for breeding, animals and birds for fattening, colonies of bees and 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.

Stocks are valued using historical cost model. According to this model, assets are initially recognized at cost and are presented in the balance sheet as a minimum of the cost and value that can be obtained from their sale or use[10].

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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 estimated cost of sales of biological assets; narrative or quantified description of each group of biological assets, information about biological assets over which ownership is limited or which are offered as collateral for debts, methods and hypotheses that are denied to determine fair value, etc.) [15]. In Romania, the form of 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" [10].

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 fields has led to a radical change in the accounting practices of large agricultural companies by moving from historical costing to fair value 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 for the assessment of biological assets implies a subjective judgment.

However, IAS 41 remains the first step of a consistent transition to fair value measurement in the agricultural sect.

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[2]. If we take into account the large forests bought by foreign investment funds and the many foreign investments invested in livestock farms, it is expected that in the near future and in Romania it will be considered necessary to apply this standard. There are enough possibilities to develop research in this area. IAS 41 prescribes the accounting treatment, presentation of financial statements and disclosure of information about agricultural activities, a topic that has not been addressed by other Standards[14]. Agricultural activity is the way an entity transfers live animals or plants (biological assets) for sale into agricultural products or other biological 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 [4].

RESEARCH RESULTS

However, IAS 41 does not deal with the processing of agricultural production after harvesting: for example, the process of transforming grapes into wine or wires into strands. It is assumed that the fair value of a biological asset can be credibly evaluated. However, it the 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 credible. In this case, IAS 41 requires an entity to measure that biological asset at cost or less any accumulated depreciation 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[4]. IAS 41 requires the inclusion of any change in fair value less costs to the point of sale of a biological asset in profit or loss of 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 history 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 [12]. The following types of products result from the biological transformation:

(a) changes in assets through (i) increase (increase in quantity or improvement of caitus of an animal or plant); (ii) Degeneration (a decrease in quantity or a deterioration in the quality of an animal or plant), or (iii) reproduction (creation of live animals or additional plants); or

(b) obtaining agricultural products such as latex, tea, wool or milk.

An entity will recognize a biological asset or an agricultural product at that time, and only when:

• the entity controls the asset as a result of past events;

• it is likely that the future economic benefits associated with the asset will reach the entity;

• the fair value or cost of the asset can be measured reliably.

In the 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 physical - significant attributes.

A biological asset will be valued at the recognized recognition and at each balance sheet date at fair value less estimated point-of-sale costs.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 which 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.Under some circumstances, for a biological asset, prices or market-determined values for the current asset condition may not be available[9]. Under these circumstances, for the determination of fair value, an entity uses the net present value of cash flows on the asset, updated at a pre-tax rate determined by market fluctuations.

The objective of calculating the present value of estimated cash flows is to determine the fair value of a biological asset in the current state and location. In determining the appropriate discount rate and estimating estimated net cash flows, an entity considers the calculation of the current amount. The current condition of a biological asset excludes any value increases resulting from additional biological transformations and from the entity's future activities such as improvements in future biological transformations, crops and sales.

CONCLUSIONS

In an objectively determined transaction, buyers and interested buyers and acquaintances consider the possibility of variations in treasury flows. It follows that fair value reflects the possibility of such variations. Consequently, an entity incorporates estimates of potential fluctuations in cash flows either in the estimated cash flows, either in the discount rate or in a combination of the two. To determine the discount rate, an entity uses assumptions consistent with those used to estimate cash flows to avoid the effect resulting from ignoring or doubling some of the assumptions.Sometimes, fair value can be approximated by cost, especially when:

• Few biological transformations have occurred from the initial costs incurred (for example, for seedlings planted immediately before a balance sheet date); or

• The impact of biological conversion on the price is not expected to be significant (for example, for initial growth in a pine nursery that has a 30-year production cycle).

Biological assets are often attached to the land on which they are located (for example, trees by a nursery) [5]. For biological assets that are attached to the land on which they are located, there may not be a separate market, but there may be a market for combined assets, that is to say for biological assets, land and its facilities, considered as a package. When a biological asset is initially recognized, losses may be recorded, since in determining the fair value the estimated cost at the point of sale is deducted, less the estimated cost at the point of sale of the biological asset. Initial recognition of a biological asset can also generate a gain, for example, when a calf is born. Biological transformation results in a number of physical changes - growth, degeneration, production and reproduction, each of which can be observed and evaluated. Each of these physical changes is directly proportional to the future economic benefits. A change in the fair value of a

biological asset due to harvesting is also a physical change. Agricultural activity is often subject to climatic, disease and other natural risks. In the event of an event that generates a material income or expense, the nature and amount of that item are disclosed in accordance with IAS 1 Presentation of Financial Statements. Examples of such events include epidemics, floods, drought prleaks or frosts, and insect invasions.

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