

THEORETICAL AND PRACTICAL ASPECTS REFERRING TO THE APPLICATION OF IAS 41 – AGRICULTURE

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The agriculture international standard does not apply to issues regarding agricultural crop lands and intangible agricultural assets, aspects that are included in the IAS 16 (or IAS 40), respectively IFRS. The integrated companies apply the IAS 41 Standard first, when operating with agricultural activities as basic activity, and with industrial activities as secondary activity. This particular standard describes the accounting procedures referring to biological assets and agricultural harvest produce; the accounting treatment and the governmental subsidies are all described in the IAS 41 Standard. Financial analysis and interpretation IAS 41, as with any value standard, users should pay particular attention to the disclosure of key assumptions used to determine fair value and the consistency of those assumptions from year to year. At the annual accounts or at the beginning of the year, the biological assets must be evaluated at their fair value minus point-of-sale expenses. Although, if on the initial estimation, the fair value cannot be estimated realistically, the biological asset must be estimated at its costs, minus collected amortization and any depreciation collected loss. Once the fair value becomes realistic, the asset must be estimated at its fair value, minus the point-of-sale costs. If there is an active market for a certain asset or agricultural produce, the quote on that market is actually an appropriate basis for estimating the assets' fair value. If there is no such market, the following criteria are used for the fair value estimation: - the most recent market transaction price; - market prices of similar assets; - sector standards.

Key words: IAS 41, accounting treatment, biological assets, agricultural produce

The agriculture is the science, art or practice that refers to the production of goods through the growing of plants, animals and other life forms. The term “agriculture” is the English adaptation of Latin “*ager*” – “a field” and “*cultura*” – “cultivation”, meaning the mechanical and chemical processing of soil for plant growing.

The IAS 41 refers only to the grants that are given for biological assets evaluated at fair value, minus estimated costs at the sale point. The biological assets grants, as they are registered with historical analyzed costs, are treated according with IAS 20.

MATERIAL AND METHOD

The agriculture includes:

- Subsistence economy – where the cultivator produces enough food for him and his family
- Obtaining agricultural produce by land cultivating or animal breeding for commercial purposes and obtaining revenues (mostly in developed countries, and now in many other countries)

The agriculture is one of the oldest human activities, and is very important for the global economy through the generated resources. This economy branch is active with 60% of the world's population, but in some countries it goes up to 70%.

Aria of application: the IAS 41 Standard will be applied for the accountancy of the following elements of agricultural activity:

- biological assets
- agricultural produce at the harvesting point
- governmental subsidies

This standard is not applicable for the lands associated with agricultural activities (IAS 38 standard – intangible assets).

The IAS 41 – does not treat the processing of the products obtained after the harvest, such as transforming the plums into palinca, transforming the corn into wheat, transforming the animal skin into processed skin. These processes are described according to IAS 2 – Inventories. The term “biological asset” included in the IAS 41 is referring to a living animal or plant.

RESULTS AND DISCUSSION

The agricultural activity is about management – control of the biological transformation of a biological asset, for the purpose of selling it in its exact state, obtaining other additional biological assets. For example, marine fishing is not an agricultural activity, because the entity does not manage the process of fish transformation. An agricultural produce is a harvested produce, formed out of the entity's biological assets. The harvest is the detachment of produce from a biological asset, or the cessation of biological assets' life processes.

An active market includes the following features:

- The traded elements are homogeneous;
- At any moment, interested sellers or buyers can be found on the market;
- The prices are available to the public.

Although UFRS/IAS 20 “Accounting for government grants and disclosure of government assistance” has special stipulations for the treatment of governmental grants, the IASB was bound to create special stipulations for the accounting of such grants. IAS 40 brings the differences between unconditional and conditional governmental grants.

Granting unconditioned subsidies has no connection with any restrictive clause. The grants are conditioned when their granting depends on achieving at least one condition; for example, when the government asks that the agricultural crop lands to be harvested 3 years, or otherwise the grant must be reimbursed.

The unconditional governmental grants are recognized as revenues when the company's grant becomes a credit. The conditioned grants, such as those given for

ceasing an agricultural activity, will be registered as revenues when the conditions corrected with the grants are fulfilled, and chargeable revenue is registered for the grant donor.

The IAS 41 refers only to the grants that are given for biological assets evaluated at fair value, minus estimated costs at the sale point. The biological assets grants, as they are registered with historical analyzed costs, are treated according with IAS 20. If IASB transferred IAS 20 to biological assets reviewed at fair value, than the public grant would have been deducted from the assets' accounting value; after that, a loss and profit recovery would be conducted, due to the fair value evaluation minus estimated point-of-sale costs. In this case, the public grants would immediately be recognized as revenues, contradicting IAS 20.

Accounting treatment. An entity will recognize a biological asset or an agricultural produce in the following situations:

- The entity sees the asset as a result of previous events;
- There is the probability where the entity obtains benefits according to future economic policies associated with the asset;
- The fair value or the assets' cost is to be realistically estimated.

A biological asset can be estimated at fair value at the initial recognition and on each balance sheet, minus the point-of-sale costs. Although, if on the initial estimation, the fair value cannot be estimated realistically, the biological asset must be estimated at its costs, minus collected amortization and any depreciation collected loss.

Once the fair value becomes realistic, the asset must be estimated at its fair value, minus the point-of-sale costs.

The agricultural harvested produce will be estimated at fair value, minus the point-of-sale costs from the harvesting point. This type of evaluation shows the cost of that moment, and one should apply the IAS 20 "Inventories" or other applicable standards.

If there is an active market for a certain asset or agricultural produce, the quote on that market is actually an appropriate basis for estimating the assets' fair value. If there is no such market, the following criteria are to be used for the fair value estimation:

- the most recent market transaction price;
- market prices of similar assets;
- sector standards.

The profit or loss that appear due to the initial estimation of a biological asset calculated at fair value (minus the point-of-sale costs) or to value-modification (minus estimated sale costs), will be included in the profit or loss of the current period. An unconditional governmental grant related to a biological asset estimated at fair value (minus point-of-sale costs) will be recognized as revenue when the governmental grant becomes receivable.

IAS 4 states that there is a possibility to always estimate the fair value of a biological asset. This hypothesis can be rejected, and in this case the amortized cost is used.

The unconditional grants are registered to revenues, when the receivable is received. The conditional grants are received when all the requirements are fulfilled.

The entity must present distinctively the biological assets in its balance sheet, and must indicate the global result of its biological assets during the current period. Furthermore, the entity must present for each biological activity group, the following: description of the group, active quantities at the closure and harvests obtained during the current period, as well as fair value indicators.

Moreover, one must present the net fair value of an agricultural produce during the current period, during harvest, the financial commitments and property restrictions, a variation table of the biological assets and additional information, in case the fair value could not be realistically estimated.

IAS 41 is treating the management of biological assets: increasing the agricultural output, logging, plant cultivation; horticulture and aquaculture.

The biological alteration is the process of growing, ageing, production and procreation of biological assets; these alteration lead to new agricultural produce, or transformation of other biological assets.

In addition, IAS 41 does not contain any specific information referring how often one should estimate the biological assets. We can conclude that the estimation must be conducted on each closure, because the standard does not state any information on how frequent the estimation must be run. As explanation, IASB stated the availability of fair values on relative expected costs, and the consistent progress of biological transformations.

The fair value estimation for agricultural produce at the harvesting point is strictly controlled compared to biological assets (according to IAS 41). Therefore, harvested cereal, animal sacrifice, picked fruits will be estimated at fair value minus point-of-sale costs, even if they cannot be realistically estimated; the estimation at production costs, due to exceptional circumstances, is not possible, as compared to biological assets. IASB states its premises, which states that there is an active market and a suited price for agricultural produce. Therefore, for agricultural harvested produce held as inventories, the fair value (minus point-of-sale costs) is actually the initial value correspondent to the acquisition costs or production costs (according to IAS 20).

The profits or losses that result from the initial recognition of agricultural produce are shown in the profit and loss account, and they will influence the end result.

In the case of biological assets or agricultural produce that are similar, IAS 41 allows grouping them in order to simplify the fair value estimation. The relevant characteristics for grouping the assets are: nature, naturalness, consumption possibility, and quality and production capacity.

CONCLUSIONS

IAS 41 stipulates the general hypothesis that the fair value can be realistically estimated, by using deductive hierarchy for the purpose of initial estimation and consecutive estimation of biological assets. If this hypothesis is rejected - because it can demonstrate that the initial recognition does not allow a realistic estimation of a biological assets' fair value - then the asset will be estimated at acquisition or production costs. This initial estimation will reduce itself with cumulated amortizations, during consecutive periods.

If during the assets' lifetime appear parameters that show that the fair value can be estimated realistically, the estimation must be run at that value, minus estimated sale costs. And so, a later alteration of the criteria is not allowed, due to the principle of method continuity. This restrictive manipulation is justified by the fact that IASB fears that when the market prices go **M. Socoliuc** down, the estimation at production or acquisition costs will be then conducted. This belief is not yet justified, because in case of cost estimation, one should conduct a depreciation test (according to IAS 36 "Impairment of Assets") and the markets' price reduction would be recognized as depreciation.

As for the financial-economical information users, there is a higher prognosis risk, due to higher availability of annual results, and by not considering the fact that the continuous substance value (and also production value) is threatened by several (natural) factors: variation of own performance and total market performance, price variation caused by weather influence, as compared to assets such as lands and buildings.

Another conclusion: the financial indicators are considered to be insufficient for the performance targets that allow a better estimation of company's value.

The accounting result is not representative for the company's performance because of its regulative state (accordance with accounting standards), which allows a limited usage of this information. These arguments emphasize the accounting difficulties to measure economic performance.

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