Prospects of IAS 41 "Agriculture" in the activities of agro-industrial organizations in Russia

Irina Sergeeva

Moscow University of Finance and Law MFUA, Vvedenskogo Street, 1a, Moscow, 117342, Russian Federation

Abstract. Russian accounting standards made significant progress of harmonization with international principles recent years. However, they remains part of the provisions of national standards, have inherent differences with International Financial Reporting Standards (IFRS), which requires from company additional work on parallel conduct of selected areas of accounting. The main differences between IFRS and Russian accounting system associated with historically specified differences in final goal of using of financial information. Financial statements prepared in accordance with international standards, used now by private investors as well as other organizations and financial institutions, meanwhile the financial statements, which previously was compiled and prepared in accordance with Russian accounting system used and continues to be used by government and Statistics. Since these user groups have different interests and different information needs, development of the principles underlying the preparation of financial statements recently went in different directions.
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Introduction

The ultimate goal of accounting reform in Russia is to provide maximum adaptation of the national accounting system to international standards. In this connection, in 2011 were published the "Regulations on the Recognition of International Financial Reporting Standards and interpretations of international accounting standards for use in the Russian Federation", approved by the Government of the Russian Federation in February 25, 2011 number 107 [1], and the order of the Ministry of Finance of the Russian Federation from November 25, 2011 number 160 "On introduction of the international Financial Reporting Standards and interpretations of international accounting standards in the Russian Federation" [2]. The first from these documents defines the legal status of the International Financial Reporting Standards in the system of normative regulation of accounting in Russia, as the existing legislative acts for using them by economic operators in process of the financial statements preparation. Second document – introduces a specific list of international standards and gives them the current version.

In relation to the agriculture sector the most significant is International Accounting Standard (IAS) 41 "Agriculture", which aimed to establish accounting procedures and clarify information, concerning agricultural activities. In reviewing this document, at first place is worth to announce and list terms used in process of information disclosure for agriculture organizations, and give brief comments on some of them [3].

Main

Agricultural activity – carried biotransformation management, like entity of biological transformation, collection or harvest of biological assets for the purpose of sale or processing into agricultural produce in or into additional biological assets. It worth to note that according to IAS 41, paragraph 3, agricultural activity is not included in agricultural products producing (grapes – wine, milk – in cheese), even if it is a law-governed stage of the production process. In the current system of the national accounting standards of Russia, all these activities are gathered on single system at a synthetic account 20 "Primary production" and are separated only at the level of sub-accounts (crops, livestock, industrial production). In this case the question of adaptation of national standards requirements with international standards, remains open [4].

Biological asset – is a living animal or plant. The totality of biological assets are classified into consumable and bearer, as well as mature and immature.

Consumable biological assets – those assets that will be received, harvested as agricultural produce or sold as biological assets (for example, fish in farms, livestock intended for the production of meat, livestock held for sale, crops such as maize and wheat, and trees being grown for lumber).

Bearer (productive) biological assets – all biological assets that are not consumed for example, perennials or livestock from which milk is produced, grape vines, fruit trees, and trees from which firewood is harvested while the tree remains. Bearer

biological assets are not agricultural produce but, rather, are self-regenerating.

Mature biological assets – assets that have reached size or settings that allow to start collecting or harvesting of agricultural products (in relation to consumable biological assets) or could provide getting (collection) of agricultural products on a regular basis (in relation to bearer biological assets).

Agricultural produce – is the harvested product of the entity's biological assets, so it is product obtained or collected from biological assets. Here we pay attention that IAS 41 applies only to initial recognition (i.e. collecting or generating) products and all further operations on it (recycling, sale, transfer) are regulated by the International Accounting Standard (IAS) 2 "Inventories".

Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture and aquaculture (including fish farming).

Biotransformation – comprises the processes of growth, degeneration, production, and reproduction or procreation, resulting in biological asset quantitative or qualitative changes (e.g., increased live weight of young cattle for fattening, but not getting the milk from livestock). Biological transformation results in the following types of outcomes:

(a) asset changes through growth (an increase in quantity or improvement in quality of an animal or plant), degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or procreation (creation of additional living animals or plants); or

(b) production of agricultural produce such as latex, tea leaf, wool, and milk.

Selling Expenses – are additional costs that directly attributed to the sale of an asset, without financing costs and income taxes. Adapting the definition of Russian standards terminology, we can assume that it is a part of the overhead costs (accounts 25 "General expenses" and 26 "General Expenses") and selling expenses (on account 44 "Cost of sales"), which in the domestic accounting system is often included in the full cost of production, and in accordance with IFRS – are directly related to the financial results. So, in this case we are talking about how use this system of calculation, as "direct-costing" [5].

Collection of agricultural products – process of product's separating from a biological asset or termination of biological life of the asset (for example, getting milk from livestock, but not definition of live weight gained by young animals for fattening).

Summing up these definitions it could be seen obviously not yet complete coincidence in terminology of national and international accounting standards, which in the future may result in difficulties in the transformation of the national accounts in to accordance with IFRS [6].

Another fundamental innovation introduced by IAS 41 – requirement to measure biological assets and agricultural produce at fair value less costs to sell. According to paragraph 8 of the Standard, fair value – the amount for which an asset could be exchanged, or in which the obligation can be enforced, in a transaction between good informed, independent and willing parties who wish to carry out such a deal. As a measure for determining fair value of biological assets and agricultural produce, IAS 41 provides the following options:

1) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;

2) market prices for similar assets with adjustment to reflect differences;

3) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat..

If none of the indicators for any type of asset or product cannot be determined, the Standard suggests to calculate the fair value as "the present value of expected net cash flows from the asset discounted at a current market-determined rate". Interpreting this provision in accordance with the national terminology, we can assume that it is a sentence assessment of the biological assets at a price of their possible implementation [7].

And finally, for the biological assets for which there are no market price or cost performance and "for which alternative estimates of fair value are determined to be clearly unreliable" standard governs biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. At the same time it states that "as soon as it becomes possible to measure reliably the fair value of a biological asset, the entity shall begin to assess its fair value less costs to sell".

Valuation of assets according fair value seems preferable, especially in cases where it necessary to reflect current market conditions with it price conjuncture and when prices may vary depending on product markets, so it take into account zoning factor along with other factors, which is especially important for organization in accounting and financial analysis. The practical importance and value of this assessment methodology can be

strengthened further and the argument that the financial statements prepared on the basis of accounting for the actual cost, not necessarily give a true and fair view of the company's performance or its future potential [8]. However, in our view, method of determination of fair value currently requires refinements and clarifications, as it is based on many assumptions.

If we consider the IAS 41 from the point of view of using it in financial accounting, it ought to be noted existing of large number of questions associated with the reflection of the movement of biological assets and agricultural produce on the accounts. In NAS system we will have to determine the system of accounting records and accounts, where the organization will reflect the actual cost of adjustment of biological assets (agricultural products) to the level of the fair value at the time of recognition. Based on the characteristics of the current chart of accounts it can be assumed that for these purposes can be used account 40 "Manufacture of goods (works, services)" or 42 "Markup". In the Standard practical implementations of this transaction were not disclosed. The same question arises when determining the financial result, in other words how to reflect formation of net profit or loss. Whether to apply in this case due to 42 "Markup", or account 14 "Provisions for impairment of material assets", or reflect data operations in any other way? Also, is it permissible to use the account 42 "Markup" in correspondence with account 43 "Finished goods", and whether it applied to all agricultural organizations [7]?

With respect to disclosure of agricultural activity in the part of the financial statements, the IFRS (IAS) 41 requires reflection in it the following:

– total amount of profit or loss arising during the current period on initial recognition of biological assets and agricultural produce, as well as the change in fair value of biological assets and agricultural products;

– description of each group of biological assets;

– nature of its activities involving each group of biological assets;

– non-financial measures or estimates of the physical quantities of each group of the entity's biological assets at the end of the period, and output of agricultural produce during the period;

– existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;

– the fair value of each group of agricultural produce at the point of harvest and each group of biological assets [9].

Thus the information to be included in the main report forms (balance sheet and income statement) is presented in valuable terms and is based on the assessment of fair value. Other information contained in the notes to the financial statements and may "take the form of verbal descriptions or presented in figures" [10].

Conclusion

Summing up, it should be noted that the introduction of IAS 41 important, especially for structures of agro-industrial complex that are active on international markets. National accounting standards, unlike IFRS, are a set of detailed rules detailing the order of business operations, and exceptions to these rules. However, in the context of stable economic development of country it is time to replace the strict regulation of accounting procedures and actions and it should come naturally approach that the role of the state will be only in the definition of the conceptual foundations of accounting and reporting.

On the territory of the Russian Federation IAS 41 entered into force on the day of its official publication – December 15, 2011. However, in mass order organization has the right not to form statements according to international rules. Currently, IFRS mandatory moved only those economic operators who are required to take the consolidated financial statements, i.e., insurance and credit institutions, as well as those whose securities are publicly traded. For all other economic operators complete transition to IFRS is scheduled approximately for 2015. This time would be quite enough to eliminate all discrepancies, deficiencies and correct problematic issues of domestic financial statements for total transformation in accordance with IFRS.

Corresponding Author:
Dr.Sergeeva Irina
Moscow University of Finance and Law MFUA
Vvedenskogo Street, 1a, Moscow, 117342, Russian Federation

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