

PARTICULARITIES OF FARM ACCOUNTING

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Abstract: *Nowadays, agriculture has become one of the most important fields of activity, significant funds being allotted within the EU budget to finance the European agriculture. In this context, organising the accounting of economic entities which carry out their activity in the agricultural sector has acquired new meanings. The goal of the present study is to bring into the light the particularities of the farm accounting on two levels: on the one hand, from the perspective of the international accounting referential and, on the other hand, in compliance with the national accounting regulations. The most important conclusion of this work is that, in post-1990 Romania, no interest was further manifested for the refinement of aspects specific to farm accounting.*

Key words: *farm accounting, agriculture, fair value, international, Romania.*

1. Introduction

The economic and demographic realities at the end of the 20th century undoubtedly revealed the fact that the importance of agriculture must be reconsidered. This context also witnessed the imposition of the need to develop an accounting system specific to the agricultural field, able to meet the informational requirements of this field of activity. Contrary to this necessity, the history of achievements within the scope of agriculture-related accounting is, in most countries, insignificant, the importance of developing an accounting to suit the specificity of agriculture being minimised for quite a long time.

In France, no sooner than 1986 did the National Accounting Council elaborate the Agricultural General Accounting Chart of Accounts, given the fact that, until that time agriculture had been excluded from

among the activity sectors for which specific norms and accounting rules were elaborated [1].

We find a different reality in Romania. If the centralised economy period saw the implementation of an accounting system specific to the main branches of the national economy, agriculture included, after 1993, subsequent to the reformation of the Romanian accounting system and switching to general accounting, the accounting norms specific to agriculture and other fields of activity were abandoned.

At an international level, International Accounting Standards Board acknowledged, no sooner than the latter half of the '90s, the necessity to comprise within the scope of International Accounting Standards agriculture-related activities, which was materialised in 2000

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in the form of a distinctive accounting standard, IAS 41, *Agriculture* [2].

In the subsequent lines, based on a normative fundamental research, we will show, on the one hand, the particularities of farm accounting within the context of the IAS 41 international accounting norm and, on the other hand, as they are depicted by the realities in Romania.

2. The objective and recommendations of IAS 41, Agriculture

IAS 41, *Agriculture* prescribes the accounting treatment regarding the recognition and measurement of biological assets and establishes the manner to draw financial statements and publish accounting information related to agricultural activities. In other words, IAS 41 prescribes the accounting treatment for biological assets (living animals or plants), agricultural produce (harvested product from biological assets) up to the harvesting moment, but also with government grants for the benefit of agricultural activities.

IAS 41 promotes, for the farm accounting, the assessment model underlain by the fair value, thus abandoning the traditional assessment model which rests on the historical cost accounting model. Assessing the biological assets at fair value ensures a better correlation of their value with the extent of the future economic benefits expected by the respective economic entity subsequent to capitalising on the said biological assets [3]. Moreover, the fair value assessment model has a direct impact upon those agricultural activities within which biological assets generating future economic benefits enjoy an economic life expectancy which exceeds the financial year (to exemplify, the vine cultures producing grapes) [4].

The fair value represents the amount for which an asset may be traded or a debt may be deducted, willingly, between the

knowledgeable parties, within a transaction whose price is objectively determined.

Consequently, as per IAS 41, biological assets and agricultural products are evaluated at fair value less estimated point-of-sale costs, which is a rule imposed both for the initial recognition, but also for the recognition on every occasion of drawing up the balance sheet [5]. In the case of biological assets whose fair value cannot be credibly determined, IAS 41 accepts, at the time of the initial recognition, an exception from the assessment model based on fair value, respectively the cost of the asset less any accumulated depreciation and any accumulated impairment losses. Moreover, when it is possible, subsequent to the initial recognition, to credibly determine the fair value, the respective asset shall be evaluated to its fair value less estimated point-of-sale costs [6].

Mention should be made that this exception is accepted by IAS 41 only for biological assets and cannot be extended to comprise agricultural products as the latter are the object of harvest and, consequently, there is in their case a relevant market ensuring a credible estimate of the fair value. The estimated point-of-sale costs include the brokers' fees, the taxes charged by the regulatory agencies and the commodity exchanges, as well as the transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to a market [7]. To exemplify, the fair value of a cattle head at a farm is the price of the cattle on a relevant market, minus the transport and other costs necessary to get the respective cattle head to a market [8].

As per IAS 41, the initial recognition of a biological asset or agricultural produce at the fair value less estimated point-of-sale costs may generate profits or losses that must be included within the result of the period during which these occurred. The same accounting treatment must also be

applied in the case of subsequent modifications of the fair value for the same biological asset or agricultural produce [9].

Mention should be made that, at the level of agricultural activities, the moment of harvest has a major impact upon the accounting treatment, since it imposes the waiver from the recommendations of IAS 41 in favour of implementing IAS 2, *Inventories* or another applicable International Accounting Standard.

Unlike IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*, IAS 41, *Agriculture* does not make reference to the accounting treatment of any possible further expenses related to biological assets. The explanation of this position is related to the use of the assessment model based on the fair value.

In addition to aspects pertaining to the recognition and measurement of biological assets and agricultural produce, IAS 41 also prescribes the accounting treatment of government grants supporting agricultural activities, which differs according to these grants being either unconditional or conditional.

An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs must be recognised as income when the government grant becomes receivable. Conditional government grants, regardless of the nature of the condition, must be recognised as incomes only when they meet the imposed condition [10].

3. Coordinates of the farm accounting in Romania

While researching the first accounting papers written in our country in the second part of the 19th century, we found that the first Romanian professional, concerned with the appearance and the development of a specific accounting to the agricultural sector, was I. Ionescu de la Brad, a cultural personality with multiple preoccupations.

I. Ionescu de la Brad published, in 1870, "*A Small Accounting Treaty*", where he recommended a simplified accounting for the small and medium peasant households, appeared in a large number after the agrarian reform in 1864. He suggested the introduction of a "*Single registry of the grower*", which was drawn up based on the simple accounting principles. In the Romanian author's sense, the accounting could also have the middle role of economic training of the peasantry [11]. I. Ionescu de la Brad was the first Romanian author concerned with the accounting application in agriculture and he had the first attempt of accounting "normalization" in this field, both in Romania and in Europe. He is also the first Romanian author who understood that the double accounting principles can be equally applied in industry, commerce, agriculture and public administration. In his writings, he used symbols for accounts and he was interested by the problem of accounting rationalization. [12].

Due to the historical context, mostly unfavorable to Romania, a rigorous accounting, based on principles and accounting rules, started to get shape in the interwar period in our country. A study realized in 2010, proves, though filed information, that the organization of accounting within the farms wasn't a generalized practice in the interwar period either. A small number of large farms had understood that, only by organizing their accounting, were they able to assess the profitability of their activity. In this context, Romania couldn't speak about a specific financial reporting practice till the implementation of the centralized economic model [13].

A characteristic of the farm accounting in 1947-1989 was that the land was not admitted as an object of accounting, because it was considered without value. Only the land improvements which needed

“important workforce consumes and materialized”[14]. The animals, the poultry, bees, young plantations of trees and vineyards also raised special problems of accounting recording, monitoring and control. In the farm accounting, the questionings took place on three levels [15]:

- accounting for production, revenues and financial results in the state agricultural enterprises;
- accounting for production, revenues and financial results in the resorts for agricultural mechanization;
- accounting for production, revenues and funds in the agricultural cooperatives.

During 1947-1989, in Romania, there were many charts of accounts used by the farm accounting organization [16]: the chart of accounts for the state agricultural enterprises, the chart of accounts for agricultural mechanization resorts, the chart of accounts for the agricultural cooperatives and the chart of accounts used for the inter-cooperative economic associations.

An interesting landmark, which can be analyzed by recourse to history, is the demarcation “fixed assets” versus “material current assets”. The analysis of the fixed assets can be done based on several particularities. Thereby, in order to ensure a rigorous evidence of the “fixed assets”, in the interval 1947-1989 there was a strict classification on analytical steps. For example, for buildings, group 11 “Agricultural buildings” was structured in: 111 “Stables for horses and cattle”, 112 “Shelters for swine and sheep” or 113 “Shelter for poultry and small animals” and others, and the detail continued to the fourth step, for example 113.1 “Cages for poultry”. Although such a division would be nowadays considered a too detailed analysis for being disclosed in the accounting rules text, it can be retained as

a reference, in the particular case of the agricultural entities in the analytical disclosure of the information [17].

Another detail, which has importance from the previous experience in the agricultural financial reporting point of view, is the delimitation of the categories of animals, due to the fact that the current Romanian regulations are slightly concise in this regard. Thus, in Order 3055/2009, Accounting regulations consistent with the European directives, we find a few clues about the classification of the categories of animals within the assets. Therefore, in article 154, paragraph f), there is the following classification: “animals and poultry, new born animals and young animals of any kind (calves, lambs, piglets, foals and others) raised and used for breeding, fattening animals and poultry in order be valorized, bees colonies, as well as animals for production – wool, milk and fur”. Another category is the one of the animals for breeding and work, the plantations, related to which the only evidences provided by the current accounting regulations come from the functioning rules of 213 “Plant and machinery, motor vehicles, animals and plantations” account.

Interesting is that, in the period 1947-1989, the investments in the rented fixed assets or for the lakes, swamps, pond or land improvements were considered fixed assets and, therefore, depreciated. In the same way, nowadays, according to Order no 3055/2009, the investments made for the lakes, swamps, pond or land improvements and for other similar works, are recovered through depreciation, by including them in the operating expenses in a period set by the administrators or by the persons responsible for the entity’s management, based on their useful life time [18].

In the 90’s, the Romanian accounting took another course, inspired from the

French accounting model, and we abandoned the idea of organizing a differentiated accounting on branches of the national economy. In this context, we cannot help wondering why the Ministry of Finances took from France only the idea of the General Chart of Accounts, ignoring the French experience in the Agricultural General Accounting Chart (AGAC). AGAC was elaborated in French in 1986 and proposes an adapted classification of the accounts and a certain model of balance sheet and profit and loss account, specific to the activity of farms. The most important accomplishment presented in the AGAC refers to the living goods. The general accounting chart specific to the agricultural exploitations sets: the definition, the classification criteria, the valuation rules and the treatment of the specific farm transactions for what represents the essential features of the agricultural entities: the livestock [19].

Nowadays, in Romania, we have a unitary chart of accounts, valid for all the economic entities, doubled by a second plan with specific accounts for the public and banking institutions, which provide a slightly different financial reporting. The current economic context Romania goes through as European Union full-rights member, where the agriculture is considered a priority, and the access to the European financing which is granted only if the economic entities provide viable technical-financial documentation, surely demand some reconsiderations and regulations for the accounting specific to agriculture.

Furthermore, the impact of the Common Agricultural Policy (CAP) promoted inside the European Union can be measured, nowadays, with the help of the Farm Accountancy Data Network (FADN). FADN is an instrument for data analysis, projected to evaluate the income of the agricultural holdings which activate in the

European Union. In other words, FADN is a statistical tool based on an annual survey, conducted on a representative sample of farms in order to assess their economic activity, being supported by the accounting information collected from the farms in the European Union. In Romania, the centralized data transmission in FADN has become mandatory since 2008 [20].

By applying the FADN, the farm managers are able to receive a feedback, including an assessment of the results achieved by the farm compared to average results of other farms in Romania, which participated in this investigation, a new perspective on the results of the farm being provided. This feedback ensures the identification of the strengths and weaknesses of the production and the economic activity, useful in establishing new methods to improve the farm performances [21].

4. Conclusions

At an international level, pursuits for development of farm accounting emerged at a very late stage, IASB approving a distinctive accounting standard dedicated to particularities occurring within agricultural activities no sooner than the year 2000. For the purpose of measuring biological assets and agricultural produce, IAS 41, *Agriculture* recommends applying the model based on the fair value, which ensures obtaining credible and relevant accounting information, in accordance with the specificity of the activity rendered in the agricultural field. In Romania, despite Ion Ionescu de la Brad being the first specialist claiming the necessity of organising a minimum amount of accounting records for agricultural exploitations, the normalization and actual implementation of farm accounting were performed at a very late stage, only in the latter half of the 20th century, during the centralised economy period. After 1993, once the accounting system was reformed,

a general accounting system was adopted and the practice of regulating accountancy according to national economy branches was abandoned.

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