

IPSAS AGRICULTURE – PROBLEMS OF A START

Lecturer Cristina Silvia NISTOR

Babes Bolyai University, Faculty of Economics and Business Administration, Cluj Napoca, Romania

cristina.nistor@econ.ubbcluj.ro

Assistant Andreea CIRSTEA

Babes Bolyai University, Faculty of Economics and Business Administration, Cluj Napoca, Romania

andreea.carstea@econ.ubbcluj.ro

Diana COZMA IGHIAN

North University, Baia Mare, Romania

Abstract:

The Agriculture theme raises a lot of problems from the point of view of its reflection in the public sector accounting. In this context, at international level, there was need for a separate international regulation on this topic. According to IAS 41 Agriculture, a project has been subject to public debate – Exposure Draft (ED) 36 Agriculture, by whose modeling based on subscribed observations and proposals, to be able to build an international standard for public sector on the topic of agriculture. Through a positivist research, based on the combination between quantitative and qualitative research, we analyze the impact of this proposed standard on the respondents, tracking and quantifying the degree to which it meets the needs of specialists from different countries. The study is very topical, considering that in the current period, at IPSASB level (International Public Sector Accounting Standards Board) there is the process of final elaboration of the standard, taking into account the particulars brought to ED.

The study is of great importance for both the theoreticians from accounting field, who can make an image on the research trends in this field, and the practitioners who can get the answer to some problems of agriculture, whose solution will be achieved by international standard approval.

Keywords: IPSAS, agriculture, comments, terms, debate

JEL Classification: M 40, M 41

INTRODUCTION

At international level, half of the world's population works in agriculture. There are great differences between the role played by agriculture in different parts of the world. In developing countries, such as Nepal, almost 90% of the population work the land. In contrast, in industrialized countries, like Great Britain and United States of America only about 2% of active population are working in agriculture.

The lack of normalisation, the diversity of activities and the economic importance of the agricultural activity contributes for the increase of existing pressures in endowing the users with the financial information of the sector with relevant and reliable data, allowing them to know the real financial position and evaluate the performance of the organizations (Azevedo, Graça Maria do Carmo, 2007).

This raises the need for regulation of agriculture in public sector accounting. IPSASB recognizes the lack of such a standard and proposes for debate the ED-ul 36 Agriculture, in March 2009 with subscription term for the responses, June 2009. The current period marks the progress of the construction process of the referential, in its final form. (IFAC, 2010).

In this context, this study aims to identify the degree of acceptance of ED 36 in its current form, identifying the themes and subjects that encourage most discussions and observations. Starting from an overview of agriculture in the sphere of accounting regulations characteristic to public sector, we further detail the content of the possible standard created on this topic. Through an empirical research of the answers given by the IFAC member countries that participated to the process of the debate of the subject, we can appreciate how the final shape of referential will require extensive restructuring of content and form. Next, we try to interpret the position of some countries and how they support or not this extensive process.

The topic presents a real interest, also for Romania, whose agriculture sector is in a slow process of development. EU membership, requires continuous updating of regulations, in order to

achieve accounting harmonization and convergence with international regulations. Thus, after including the referential of agriculture in IPSAS (International Public Sector Accounting Standards), also the Romanian accounting public sector should attend to its regulations.

REVIEW OF EVOLUTION AND CONTENT OF ED 36 AGRICULTURE

The historical evolution of the creation of the international standard IPSAS on the topic of agriculture can be synthesized as follows:

- October 2008 – The IPSASB members raises the issue of accounting treatment and presentation of information related to agricultural activity, a topic that is not covered in other standards. The first debates about the elimination of possible duplication of content between IPSAS appear, meaning that some specialists consider that defining the term “government subsidies” and presentation of the requests and recommendations regarding the booking of government subsidies in the context of agricultural activity, should not be included in this standard. This is because IPSAS 23 “Non-exchange transactions incomes” presents requirements and guidance regarding the booking of incomes from governmental subsidies.
- February 2009 – A lot of issues related to definition and range of application of agricultural products appear. IPSASB agreed that the definition should include agricultural products subject to sale. The range of application section will include a paragraph stating that the biological assets for service delivery are outside the range of application of the proposed IPSAS. The IPSASB members voted in favour of issuing the ED with 17 to 0.
- March 2009 – IPSASB issues ED 36 Agriculture. The comments on the text content are expected to IFAC's address until June 30, 2009.
- September 2009 - IPSASB analyses the answers of representatives of professional bodies from different countries for ED 36 Agriculture. IPSASB agreed to clarify the principles of measurement for non-exchange transactions, and the conditions for exclusion from the range of application of IPSAS for biological assets used in providing services. They also agreed that transitional arrangements for accounting systems that adopt for the first time the accrual accounting should be developed.

By considering the content of ED 36 Agriculture, IPSASB wants to find answers from expert bodies from different member countries of IFAC, with reference to the following subjects:

1. The definition of agricultural activity. The agricultural activity is managed by an entity that deals with biological transformation of living animals or plants for sale, including conversion to agricultural products, to additional biological goods or their preservation.
2. The biological treatment for goods during growth, degeneration, production, procreation and for measuring initial agricultural production, at harvest. It requires measurement at fair value minus costs of sales from initial recognition of biological assets to the point of harvest. However, IPSAS XX (ED 36) does not deal with processing of agricultural products after harvest, for example, processing grapes into wine or processing of wool into yarn.
3. There is a presumption that fair value can be measured reliably for a biological asset. However, this presumption may be refused, only on initial recognition of a biological asset for which market prices or established values are not available and for which the alternative estimations of fair value are determined to be clearly viable. In such cases, IPSAS XX (ED 36) requires an entity to measure biological assets at their cost less accumulated depreciation and accumulated impairment losses. Once the fair value of such biological good becomes reliably measured, an entity measures the fair value minus cost of sales. In all cases, an entity must evaluate the agricultural assets to the point of harvest, at its fair value less costs of sales.
4. IPSAS XX (ED 36) requires a change in fair value less costs of sales of a biological asset be included in the surplus or deficit of the period in which it appears. In agricultural activity, a

change in physical attributes of a live animal or plants directly enhances or diminishes the economic benefits. Under a transaction based on historical cost model, an entity that owns forest plantations would not present any income until the first harvest and sale, perhaps 30 years after planting. Furthermore, an accounting model that recognizes and measures biological growth using current fair value reported to changes in the fair value over the period between planting and harvesting, is better supported by specific of agricultural activities.

5. IPSAS XX (ED 36) does not establish new principles for land related to agricultural activity. Instead, an entity follows IPSAS 16 "Investment Property" or IPSAS 17, "Tangible assets", which is more adequate to the situation. IPSAS 16 requires that the land, subject of investments must be evaluated at its fair value or at cost minus loss of accumulated depreciation. Biological assets, which are physically attached to the land (eg trees in a plantation forest) are evaluated at fair value without the cost of sales, separate of land. IPSAS 17 requires the valuation of land to be at cost less any accumulated impairment losses or at a revalued value.
6. IPSAS XX (ED 36) does not deal with accounting of revenue related to biological assets and agricultural products from non-exchange transactions or related government subsidies. IPSAS 23 "Incomes from Non-Exchange Transactions (Taxes and Transfers)" provides requirements and guidelines for accounting for government subsidies related to agricultural activity. IPSAS XX (ED 36) deals with the evaluation of biological assets acquired in non-exchange transactions, both initial and subsequent recognition.

RESEARCH DESIGN

The main objective of the study is the possibility of increasing the portfolio assessment of IPSAS by creating a new one, on agriculture. So, we formulate the following hypotheses:

H1. To create an IPSAS Agriculture is considered useful by most professional bodies of respondent countries, members of IFAC.

H2. Defining specific notions of agriculture (eg biological assets, agricultural activities) is clear and concise.

H3. Standard issuance will be done in the shortest time.

To validate or invalidate the formulated hypotheses, we will analyze and interpret the answers given by respondents with reference to the six topics of discussion raised by the IPSASB on the final form of IPSAS XX Agriculture (ED 36).

In this approach we started from a theoretical approach of the problem of the public accounting regulations with focus on agriculture. Subsequently, through an empirical research we will determine the degree of acceptance of the standard on three levels: on each topic questioned, on each respondent country, and as whole. By quantifying 1 (YES) or 0 (NO) we will appreciate the acceptance or refusal of each point (N = 6) under discussion.

Subsequently, we will motivate positive or negative responses depending on specific public accounting system of responding countries.

The scientific research contributes to the efforts to deepen the knowledge required by retrospective nature imposed by the realized normative research, and by the prospective nature, given by the realized empirical research. Among the human socio science methods used in this approach, we can specify: analysis of documents, comparative method and observation method.

RESULTS

After analysing the comments sent to IFAC by the specialized bodies of the nine respondent countries, the following situation results (table no. 1):

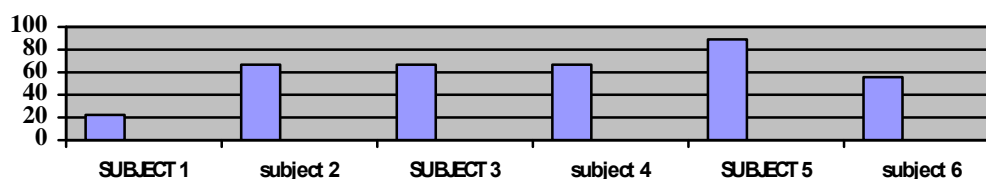
Table no. 1. Estimation of answers

SUBJECTS COUNTRIES	1	2	3	4	5	6	DEGREE OF ACCEPTANCE/ COUNTRY
Sounth Africa	0	1	1	1	1	0	66.7%
England	0	1	1	1	1	0	66.7%
Australia	1	1	1	1	1	1	100%
Canada	0	0	0	0	1	1	33.3%
Switzerland	1	1	1	1	1	1	100%
France	0	1	1	1	0	0	50%
Japan	0	1	1	1	1	1	83.3%
New Zealand	0	0	0	0	1	1	33.3%
U.S.A.	0	1	0	0	1	0	33.3%
DEGREE OF ACCEPTANCE/ SUBJECT	22.22%	66.66%	66.66%	66.66%	88.88%	55.55%	

Considering the degree of interest shown by respondent countries for the topic of booking the specic elements of agricultural domain in the public sector, we can say that the hypothesis "To create an IPSAS Agriculture is considered useful by most professional bodies of respondent countries, members of IFAC" is true. If we calculate an average of acceptance / total standard, it is above 50%, which reinforces the conclusion that the need for a referential is also evident.

But there are some problems regarding the delimitation of the scope of the referential. The main discussions occur about IPSAS 17 "Tangible assets", IPSAS 23 "Incomes from Non-Exchange Transactions (Taxes and Transfers)", IPSAS 12 "Inventories". If we want correctly positioning all the aspects, it will be neccesary the restructuring of these IPSAS, which will affect the deadline for the new standard. But in December 2009, because of the importance of agriculture in the public sector, a standard was issued, IPSAS 27 "Agriculture". It is not considered the fnal form but it is a step for issuing the final stndard. In other words, the hypothesis "Standard issuance will be done in the shortest time" proves to be true.

In detail, the degree of acceptance of the six subjects under discussion by IPSASB is as follows (figure no. 1):

Degree of acceptance/subject**Figure no. 1. Degree of acceptance/subject**

As you can see, the theme with the lowest degree of acceptance is subject 1. The vast majority of countries deemed to be insisted on clarifying specific terms of the agricultural sector for being an uniformity in understanding and applicability in good conditions of their content. Japan considers that this standard does not include the important biological assets that are used to provide services, including plants and trees used for environmental protection. USA believes that there is a clear breakdown of agricultural products.

Therefore we can say that the hypothesis “Defining specific notions of agriculture (eg biological assets, agricultural activities) is clear and concise” proves to be true. Also, subject 6 has a weight of acceptance at limit, the motivation can be given by France that suggests the confusion between accounting of biological assets acquired from non-exchange transactions or government subsidies and the incomes related to biological assets and agricultural products realized from non-exchange transactions or from government subsidies. Subjects 2, 3, 4 and 5 are accepted, outlining the idea according to which the fair value occupies a fundamental place in the evaluation of agricultural assets, their particularities imposing this thing. Barlev and Haddad (2003) argued that fair value accounting has the capacity to enhance the stewardship function by providing relevant information to stakeholders, thus alleviating social conflict. The latter occurs when the discrepancies that exist between agriculture widely practiced and that performed at a small level (like farmers), cause discontent in terms of efficiency, quality, exploiting the possibilities of agricultural products. The fair value sustains the interests of both parties, in realizing a correct evaluation of agricultural assets (Elad C., 2009).

After the degree of acceptance by respondent countries to all six issues, the situation is as follows (figure no. 2):

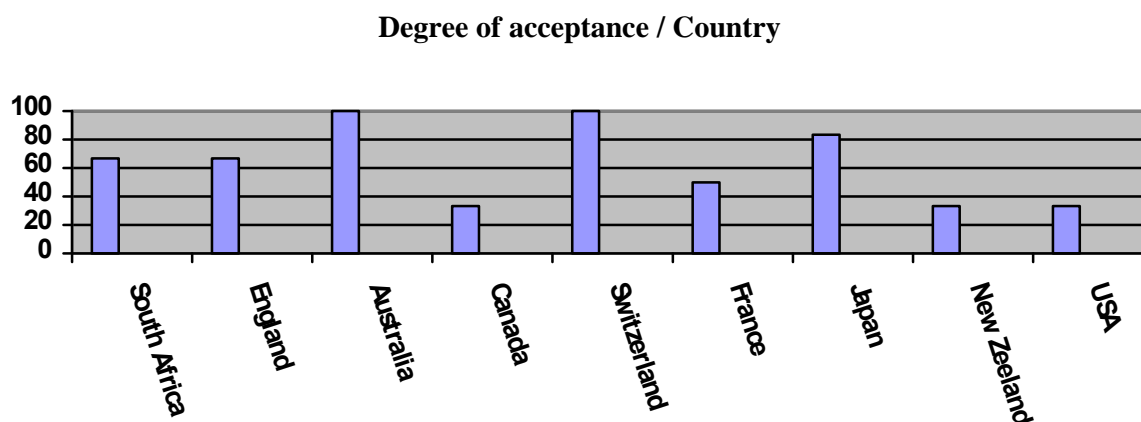


Figure no. 2. Degree of acceptance / Country

According to the formulated motivations, three categories of countries can be remarked:

- those that are fully supporting the current form of referential IPSAS XX - Australia and Switzerland
- those that are supporting the current form of referential IPSAS XX, but with minor adjustments - South Africa, England, France. The comments of these countries specifically refers to the redefinition of terms, to provide clearer evidence of the range of application of the standard Comentariile acestor tari se refera in mod special la redefiniri a unor termeni de specialitate, la o evidentiere mai clara a domeniului de aplicare al standardului (eg. South Africa sustains that IPSAS should be amended to refer constantly to the sale and transfer at all) or to a repositioning of assessment methods of agricultural assets (France sustains the cost of production)
- those that are refusing the current content of the standard, suggesting that it should not be taken up untill there will be a review of costs, benefits and a clear relevance of it. (New Zealand, USA, Canada).

CONCLUSIONS

The agricultural sector issue proves to be extremely exciting. Public accounting tries to align to existing international standards for economic entities, but the own peculiarities make the process very difficult. Through this study we captured some aspects of development and acceptance of the

new IPSAS XX Agriculture. The study has theoretical foundations and relevant practices, because there are analysed the opinions of some accountants from countries whose accounting systems are defining for anglo-saxon model (eg. England, Australia) and continental one (eg. France), namely their foundation is based entirely on international standards (eg England), or specific national rules (eg. France). The subject is not closed, because there are a lot of unclarified aspects, whose evolution is a future research subject. Also, it will be interesting to research the opinion of theoreticians and practitioners, namely of the specialized body CECCAR, regarding the vision of Romanian accounting system on the provisions of ED 36. These topics will be developed in future researches.

REFERENCES

1. Azevedo, Graça Maria do Carmo (2007), The Impact of International Accounting Standard 41 'Agriculture' in the Wine Industry, available at SSRN: <http://ssrn.com/abstract=975508>.
2. Barlev, B. and Haddad, J.R. (2003) 'Fair value accounting and the management of the firm', *Critical Perspectives on Accounting*, 14: 383-415.
3. Elad, Charles (2007), 'Fair Value Accounting and Fair Trade: An Analysis of the Role of International Accounting Standard No. 41 in Social Conflict', *Socio-Economic Review*, Vol. 5 (4):755-777, available at SSRN: <http://ssrn.com/abstract=1157711> or doi:mwm013.
4. Nistor, C.S. (2009), *Trecut, prezent si perspective in contabilitatea publica romaneasca*, Casa Cartii de Stiinta, Cluj Napoca.
5. www.ifac.org
6. www.ipsas.com