RECOGNITION OF THE BIOLOGICAL ASSETS ACCORDING TO THE IAS-41- AGRICULTURE IN UZBEKISTAN

Adkhamov Samariddin Ikromjon ugli
Head of department "International Financial management"
+99894-014-34-00
E-mail: samariddinadkhamov@gmail.com
https://orcid.org/0009-0004-6764-9354

Keywords: evaluating, biological asset, IAS 41, recognition, agricultural produce

Abstract: Supporting the measurement based on the fair value invokes a series of reasons that conclude that the fair value, as a method of measurement of the future economic benefits that is expected to be generated by the biological assets, has a greater relevance, reliability, comparability and intelligibility that the historic cost, and it is for this reason that we find more biological assets on active markets with clear market prices. The active markets for such goods supply a reliable measure of the market expectation as far as the future economic benefits are concerned. The presence of such prices increases significantly the reliability of the market value, as indicator of the fair value. The measurement of the biological assets cost is sometimes less reliable than the measurement of the fair value, because the coupled products and the coupled costs can generate situations where the relationship between inputs and outputs is incorrectly defined, leading to complex and arbitrary cost allocations even if the biological assets generate supplementary biological assets, and the latter are used for the agriculture activity characteristic to the entity. The International Accounting Standard IAS 41 – Agriculture prescribes accounting treatment, financial sheet drawing and information related to biological assets and agricultural activities from the harvesting point. This standard does not treat the processing of produce obtained after harvesting, because this process is described by IAS 2 – Stoks. International accounting standard- IAS 41- Agriculture does not contain specific information related to how often one should evaluate biological assets, deducing that the evaluation must be conducted on each closing date, because there are no existent regulations to stipulate a less frequent evaluation of biological assets. This standard presents the general idea that the fair value can be realistically estimated by using deductive hierarchy, which this article will debate, for a better understanding of initial evaluation and consecutive evaluation of biological assets. IAS41 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 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. 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.

INTRODUCTION

Agriculture is one of the oldest human activities and has an important role in global economy by its generated economic resources. The International Accounting Standard IAS 41 – Agriculture does not treat problems of agricultural lands and intangible agricultural assets, because these issues are presented in IAS 16 standard (or IAS 40), respectively IAS 38. IAS 41 does not contain specific information related to how often one should evaluate biological assets, deducing that the evaluation must be conducted on each closing date, because there are no existent regulations to stipulate a less frequent evaluation of biological assets.

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).

MATERIALS AND METHODS

IAS 41 deals with the management of biological assets transformation, considering logging, orcharding, plantations, horticulture and aquaculture. This standard will apply for the accounting of the following elements, as they refer only to agricultural activities:

a) Biological assets – plants or living animals. The transformation process creates the processes of growing, anatomic degradation of living cells, production or breeding, which cause quality or quantity alteration of the biological asset. A biological asset or an agricultural produce are accounted only if the economic entity controls the asset due to previous events, and the future economic benefits generated by the asset are obtained by the entity, where the fair value or cost can be realistically estimated. A biological asset is evaluated on the initial accounting and on the year-end accounts, at

its fair value, minus sale costs.

b) The agricultural produce at the harvesting point is actually the harvested product and the biological asset of the company. The harvest is the detachment of produce form the biological asset, or ceasing the vital processes of a biological asset. The harvested agricultural produce must be evaluated and accounted on basis of the results, at its fair values, minus sale costs during harvest. According to IAS 2 – Inventories, this estimation leads to the input cost for the harvest estimation. In this case, the fair value is estimated in the following order:

- Current price existent on an active market
- Most recent transaction price
- Current market price for similar assets or products, considering possible dissimilarities
- Sector references

There are situations where there is no reference price or value for a biological asset; in this circumstance the fair value will be calculated as updated value of assets' net expected cash flows. This standard implies that there is always a realistic way of determining fair value; if not, one will consider applying the amortized cost as replacement for the fair value.

c) The governmental grants will be accounted as revenues, when the receivables are received. Although IAS/IFRS includes in IAS 20

"Accounting for Government Grants and Disclosure of Government Assistance" special stipulations related to government grants, IASB was forced to create separated stipulations for their accounting, due to the fact that agricultural government grants are becoming more and more frequent. Offering unconditional grants is not corrected by any restrictive stipulation; they are conditioned when their offering depends on at least 3 requirements: for example, the government stipulates the land to be exploited for 3 years; if this condition is not fulfilled, the grant must be reimbursed. The unconditional government grants are recognized as revenue only when the grant becomes receivable. The conditional 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.

RESULTS AND DISCUSSIONS

Situations where the fair value cannot be reliably measured

It is assumed that the fair value cannot be reliably measured for a biological asset. This hypothesis can be ignored only at the initial recognition of a biological asset, for which there are not available prices or values determined on the market and for which

the alternative estimations of the fair value are not clearly reliable. In these cases, the biological assets will be evaluated at cost less any cumulated depreciation and any loss from cumulated depreciation. Once the fair value for such a biological asset can be measured reliably, an entity will measure it at the fair value less the estimated point-of-sale costs. When an asset meets the classification conditions as detained for sale according to IFRS 5, it is assumed that the fair value can be reliably measured. In all cases, an entity measures the agriculture products at the date of harvest at the fair value less the estimated at point-of-sale costs, reflecting in this way the idea that the agriculture products measured at the date of harvest can be always measured reliably. A government unconditional grant is relation to an measured biological asset at the fair value less the estimated point-of-sale costs will be recognized as income when and only when the government grant becomes debt. When a government grant in relation to a biological asset measured at the fair value less the estimated point-of-sale costs is conditional, including also the case when this government grant is conditioned by the non- engagement in the specified agriculture activities, an entity will recognize the grant as income when and only when the imposed conditions for the receiving the grant are fulfilled.

Evaluating biological assets

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

The third step in determining the fair value is using the purchase and production costs as parameters for estimating the fair value. This implies that on the purchase or production date, the asset already suffered a reduced biological transformation, or it had an insignificant influence on the assets' value. In these 2 cases, the purchase and production costs are approximate to the fair value. The purchase and production costs of assets are determined as purchase price minus purchase price cuttings. The production costs of assets that are produced by the entity include all production costs as well as indirect costs. IAS 41 stipulates that in order to determinate the fair value, one must calculate the updated value of net cash flows resulted from the assets' usage.

This procedure is available only if the fair value of the asset cannot be realistically determined, neither it can be determined using an active market, nor the purchase and production costs are eliminated. The asset's net cash flows will be updated using the update rate determined by the market's variations, assuming the asset will remain the same and in the same place. The net cash flows cannot include financial or fiscal payments, or cash flows used for reproducing biological assets after the harvest. In this case, the company can conduct an independent external evaluation for determining the value using planned cash flows.

Value estimation based on market prices

In the circumstances where there is no active market for the evaluated asset, one must check for prices determined by market variations. The market prices are the most recent transaction prices, and the market prices for similar products or sector prices are transferred to production capacity. The biological assets and agricultural produce are often sold through future goods contracts. According to IASB, the buying prices established by these contracts don't necessarily reflect the real market price, that is why is doesn't correspond to an evaluation criterion for biological assets and agricultural produce.

Purchase or production costs and determining the updated value Estimated point-of-sale costs.

The estimated point-of-sale costs will be subtracted from the fair value, and added to commercial factorages, public payments or taxes for goods exchange markets. These costs do not include transportation expenses or similar expenses. They must be considered when calculating the asset's fair value.

Taking the fair value minus point-of-sale costs as standard, IASB advanced the idea that the asset's fair value outbalances the point-of-sale costs. If this idea is rejected, and the point- of-sale costs are higher than the fair value, then the difference between the two is negative. Whereas the balance sheet does not allow negative values, the biological asset will be registered in the balance sheet as null – only if the company has no onerous contract. If the asset comes with an onerous contract, one will need to check for provisions, such as provisions for imminent losses according to IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets".

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.

IAS41 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 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.

CONCLUSIONS

The various sources of replacement of the animals and plants – bred or cultivated in the private household or acquired, generate different costs, according to the approach based on the historical cost. A considerably improved comparability and intelligibility appear when the similar assets are evaluated and reported using the same basis.

In conclusion, if an entity has previously measured a biological asset at the fair value less the estimated point-of-sale costs, it is necessary that the entity should continue measuring the biological asset at the fair value from which the point-of-sale costs are deduced until the moment of yielding. If the entity resorts to an exception from reliability, then it is necessary for supplementary information which would include information concerning the biological assets detained at the end of the period, such as a description of the assets an

Sustaining the measurement based on the fair value must take into account that the contracted transactions with the purpose to make biological transformations have often just a slight connection with the biological transformation in itself and consequently, a more distant connection with the anticipated future benefits. No benefit can be reported until the moment of the first harvest and sale of the production obtained by a forest entity that uses an accounting pattern of the historical cost that is based on the transaction. On the other hand, the income is measured and reported across the period until the initial harvest if an accounting pattern that recognizes and measures the biological growing using the current fair values is used an explanation of the reason for which the fair value can be measured reliably.

The fair value, as treated by other accounting standards, is an important element for the economic information users, by presenting the key elements used in its estimation. Calculating the update rate and the evaluation techniques used in determining the volume of agricultural assets, can have significant effects over the fair value estimation. All evaluations influence the profit and loss account, and directly influence the revenues and expenses: modifications of the fair value at the year- end and revenues generated by initial evaluations. Therefore, the modifications influenced by the market variations, such as physical modifications are due to biological alteration of plants and animals. These modifications are not separately recognized in the profit and loss account and in capital resources, but represent the transaction result. IAS 41 standard is one of the few standards that control accounting rules for single sectors by applying the fair value estimation for assets that are not classified as financial instruments, such as IAS 39 classifies them.

Consequently, a company should present the assets' accounting values separately in the annual financial statements. A company will present the profits or losses of the current period, at the initial recognition of biological assets and agricultural produce, and from the fair value modification, minus point-of-sale costs, and describing each group of biological assets separately. Therefore, the company will need to describe the following: the nature of its activities and each group of biological assets; non-financial measures or quantity estimations for each group of biological assets and agricultural produce of the current period. The entity will present all significant methods used in determining the fair value of each group of biological assets and agricultural produce; fair value determined at the harvesting point minus point-of-sale costs of agricultural assets during the period; the existence and accounting values of restricted biological assets and accounting values of biological assets that guarantee the debts; the value of the commitments taken for the development or purchase of biological assets; financial risk management strategies related to agricultural activities; nature and value of government grants; unfulfilled requirements and other contingencies of government grants; significant reductions related to government grants.

REFERENCES

1. Ruben Dario Marrufo Garcia and Abel Maria Cano Morales Faculty of Administrative Sciences, Venezuela "ACCOUNTING TREATMENT OF BIOLOGIKAL ASSETS AND AGRICULTURAL PRODUCTS"
2. IAS 41 – 2021 Issued IFRS Standards (Part A)
3. FAIR VALUE VERSUS HISTORICAL COST-BASED VALUATION FOR BIOLOGICAL ASSETS: PREDICTABILITY OF FINANCIAL INFORMATION 2012 Revista de Contabilidad-Spanish Accounting Review Vol. 14 - Nº 2
4. FAIR VALUE AND HISTORIC COST ACCOUNTING OF BIOLOGICAL ASSETS 2012 Spanish Ministerio de Educación y Ciencia for granting this research (SEJ2005-04037/ECON).
5. Biological Assets: Financial Recognition and Reporting Using US and International Accounting Guidance Journal of Accounting and Finance vol. 13(2) 2013
6. Accounting in Agriculture: Disclosure Practices of Listed Firms. 2014 March
7. Hasanovich, A. Z., & Ikromjon o'g'li, A. S. (2023). YASHIL IQTISODIYOTGA O'TISH DAVRIDA BIOLOGIK AKTIVLAR HISOBINI MOLIYAVIY HISOBOTNING XALQARO STANDARTLARGA MOSLASHTIRISH MUAMMOLARI. The Journal of Economics, Finance and Innovation, 714–724. Retrieved from https://sbtsuejournals.uz/index.php/EFI/article/view/133
8. Adxamov, S. (2024). Biologik aktivlar hisobini moliyaviy hisobotning xalqaro standartari asosida tashkil etishning uslubiy jihatlari. *YASHIL IQTISODIYOT VA TARAQQIYOT*, *1*(5).
9. Ikramjon, A. S. (2023). ISSUES FOR IMPROVING REVENUE ACCOUNTING IN ONLINE RETAIL STORES. *The Journal of Economics, Finance and Innovation*, 881-891.
10. Ikromjon o'g'li, A. S. (2022). "MOLIYAVIY NATIJALAR TO 'G 'RISIDAGI HISOBOT" NI MHXS LARGA MOSLASHTIRISH MUAMMOLARI. *FAN, TA'LIM VA AMALIYOTNING INTEGRASIYASI*, *3*(7), 71-75.
11. Hasanovich, A. Z., & Ikromjon o'g'li, A. S. (2023). YASHIL IQTISODIYOTGA O 'TISH DAVRIDA BIOLOGIK AKTIVLAR HISOBINI MOLIYAVIY HISOBOTNING XALQARO STANDARTLARGA MOSLASHTIRISH MUAMMOLARI. *The Journal of Economics, Finance and Innovation*, 714-724.
12. Jalol o'g'li, A. S., & Hasanovich, A. Z. (2023). SUG'URTA KORXONALARIDA DAROMADLAR HISOBI VA AUDITINI TAKOMILLASHTIRISHNING NAZARIY JIHATLARI. *The Journal of Economics, Finance and Innovation*, *2*(1), 97-103.
13. Муҳаммадиев, З. У., Боронов, Б. Ф., & Абдурасулов, Ж. А. Ў. (2021). Корхоналарда модернизациялаш жараёнлари ҳисобининг ҳозирги ҳолати: муаммолари ва ечимлари. *Илм-фан ва инновацион ривожланиш/Наука и инновационное развитие*, *4*(6), 11-21.
14. Tukhtabaev, J. S., Yuldashev, S. E., Abdullaev, Z. K., Kubaev, U. R., Raximov, A. N., & Khusanov, M. (2022, December). Econometric assessment of prospects of ensuring food safety in Uzbekistan. In *Proceedings of the 6th International Conference on Future Networks & Distributed Systems* (pp. 521-527).