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Biological assets: In what way should be measured by SMEs?

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Abstract

The paper focuses on the possible ways of biological assets measurement in financial reporting of SMEs. The entity uses the fair value model for those biological assets for which fair value is readily determinable, and cost model is employed for all other biological assets. The substance of all kinds of biological assets differs significantly, especially bearer plants and living animals. The authors evaluated application over mentioned methods for representatives of both kinds of biological assets (apple orchard and dairy cows). According to the study, historical cost is suitable for bearer plants, the fair value measurement is suitable for living animals.

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1. Introduction

The significant rate of all business entities is represented by small and medium-sized companies (SMEs). SMEs are considered as the key factor of economic growth and employment in the economies. They are socially and economically important and represent 99% of all enterprises in the EU. Their activities on the international markets are limited by a great deal of obstacles in comparison to listed companies.

SMEs represent a very heterogeneous group of business entities. This group gathers both groups of companies dynamic, innovative, and growth-oriented and the others, which are satisfied to remain small. SMEs are often categorized according to number of employees, by the value of their assets and turnover as middle sized, small and micro entities. The size categorization varies within regions and across the countries in relative to the size of the

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economy. Despite all the differences, many SMEs have a similar activity regardless of the country in which they operate. For example, in the UK, the majority of SMEs operate in the field of agriculture, trade and industry, in South Africa in personal and social services, financial services, real estate, trade, and agriculture and in Kenya in farming (ACCA, 2000).

Different national financial reporting and tax systems can be considered as the most important obstacles (European Commission, 2003). Due to this fact, the International Accounting Standards Board was authorized to develop internationally acceptable accounting standards for companies, which are not obliged to prepare financial statements in accordance with the IAS/IFRS and the final version of the International Financial Reporting Standard designed for use by small and medium-sized entities (IFRS for SMEs) was published on July, the 9th 2009.

The IFRS for SMEs is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. This standard could be a suitable instrument for the SME financial reporting harmonization. The IFRS for SME is aimed at millions of companies. The aim of the standard is to provide a simplified, self-contained set of standards. According to Deloitte (2013), this standard was meant to provide simplifications to the requirements in full IFRSs that reflect the needs of users of SMEs' financial statements and cost-benefit considerations. It is less complex, no relevant topics are omitted, accounting policy choices are reduced, requirements in full IFRSs are simplified and disclosures are reduced.

Agriculture is one of the most common scopes of business of SMEs. The substance of agricultural activities significantly differs from other business activities and it demands the different way of its reporting. Agriculture is a kind of activity which joins labour, land, animals, plants, solar energy to provide food and raw material. It has been associated with production of essential food. It includes farming, forestry, dairy, fruit cultivation, poultry or bee keeping. The common financial reporting treatments do not reflect the biological character of agricultural business. Despite the fact that there is the section 34 of IFRS for SMEs concerning the agricultural reporting, the treatment concerning the biological assets accounting is very brief and ambiguous.

2. Aim and Methodology

The paper is focusing on the proposal of treatment concerning the agricultural reporting in section 34 of IFRS for SMEs. The aim of this paper is to decide which way of biological assets measurement and reporting to be in accord with the true and fair view principle, to eliminate ambiguity, and to be in accord with the basic principles of IFRS for SME (simplicity, cost of reporting reduction with respect to differences between biological assets in a form of plants and living animals for financial reporting of SMEs).

The paper is divided into three parts. Firstly, within the framework theoretical background of the possible ways of biological assets reporting are considered. The second part is represented by the comparative analysis of strengths and weaknesses of possible ways of biological assets reporting. The above mentioned parts of the paper served as the basis for the third part – own research in which the authors are concentrated, in respect to special nature of biological assets and to possible ways of SMEs biological assets measurement and reporting.

3. Possible ways to biological assets reporting

Despite to the significant role of agriculture in the global economy accounting standard setters such as International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) have been paid only little attention to accounting for agricultural activities. The IASC predecessor of IASB added an issue of agriculture to its agenda in 1994. The final IAS 41 – Agriculture was issued in December 2000. The model of fair value for agricultural assets and production measurement was introduced in this standard. It was significant change to prior way of measurement based on historical cost basis. The fair value measurement in comparison to historical cost model reflects the biological transformation process and the increase in value during the production cycle due to the special biologic nature of transformation. There are significant differences in a nature of individual biological assets and produce. The only way to measure and present all kinds of biological assets seems not to be appropriate and difficult to use. This idea was confirmed by amendments to IAS 16 and IAS 41 published by IASB in 2013.

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