

IAS 41 Agriculture: Fair Value Accounting



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***Abstract.** Issuing this standard that had to be applied for the first time for the financial statements started after 1.01.2003 meant a change of direction from two points of view: on one hand, through IAS 41 was issued for the first time an extensive standard typical for this sector and, on the other hand, for the first time were included in the income statement, independently from the sales transactions, incomes from variations of the fair value of an asset. Because of this last aspect, IAS 41 can be considered an important standard, because it represents the starting point of a consistent transition from the purchase cost principle towards a fair value accounting. IASC has dedicated to the thematic field of agriculture a specific standard, because this economic branch has a great importance for the developing countries. On the other hand, IAS 41 is also applied for the agricultural activities of the enterprises from other sectors.*

Key words: agricultural activity; fair value; biological asset; biological transformation; initial recognition.



I. Application Field

The main reason for evaluating the agricultural activity at the point of the harvest (the current moment) results from the fact that, in this way, the transformation process is immediately represented in the financial statements and then the investor has the possibility of estimating the future economic benefit. The evaluation based on historical costs wouldn't reflect this process, because in the agriculture and in the forest economy, the production incomes appear much later. The evaluation at the acquisition cost or at the production cost doesn't reflect in a sufficient manner the increase in value over the years and at the same time, it reflects insufficiently the development phase in achieving benefit. While the biological transformation is recognized and evaluated at fair value less estimated point-of-sales costs, the annual financial statements deliver information concerning the variations of the fair value during all periods between planting and harvest.

Through IAS 41, IASB directs the accounting towards the concept of *asset/liability approach*. The following paragraphs show how ought to be realized the evaluation of all the assets submitted to IAS 41. For this purpose it will especially be dealt with the problematic of value calculation and with this standard's provisions that concern registering.

IAS 41 represents a set of rules for the registration and measurement of the biological assets and of the agricultural produce. This standard typical for the agricultural activities does not apply to the following elements:

- plots connected with the agricultural activity;
- intangible assets connected with the agricultural activity;
- government grants for biological assets that, as an exception, cannot be evaluated at fair value;
- term transactions with goods, connected with the agricultural activity;

- insurance contracts connected with the agricultural activity, such as the insurance against hail.

The objective of IAS 41 is to regulate the accounting treatment, the representation in the financial statements and the disclosures for the agricultural activities. According to IAS 41.5, the agricultural activity is defined as the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

The biological transformation of a biological asset comprises the process of growth, genetic transformation, production, and procreation, both from a qualitative perspective and from a quantitative point of view. While the biological assets represent living animals or plants, the agricultural produce represents the harvested product of these assets, such as milk, wool, meat, fruits or cereals. IAS 41 applies to the harvested products, obtained during the agricultural activity from the biological assets, only at the point of harvest. For the following measurement, IAS 41.13 prescribes the application of IAS 2.

IAS 41.4 gives examples of biological assets, agricultural produce and products that are the result of the processing after harvest (see table 1).

The agricultural activity includes a large spectrum of activities, such as animal breeding, forest economy, fruit growing, plantations, flower growing, as well as pisciculture. Despite this variety, all agricultural activities have common characteristics (according to IAS 41.6 (a)-(c)) that should be interpreted as application criteria:

- *the ability of modification*: living animals and plants can be biologically transformed;
- *administration of the modification*: facilitating the transformation process by improving or stabilizing the conditions necessary for the process.

This criterion requires that harvesting from unprocessed resources, such as fish from the sea, doesn't represent an agricultural activity as defined by IAS 41, because is not being carried out an administration of the transformation process. In case of a processing process, a mechanical transformation or a chemical transformation takes place. IAS 41.7 emphasizes this idea, according to which the biological transformation leads to the following results:

- modifications of the asset through
 - growth by increasing the quantity or improving the quality;
 - degeneration by decreasing quantity or deteriorating the quality;
 - reproduction by creating additional living animals and plants;
- obtaining agricultural products such as latex, tea, wool or milk.

- *measuring the modification degree*: the modification of the quality (such as the ripening extent, the content of fat or the resistance degree of the fibers), as well as the modification of the quantity (such as weight or length of the fibers) are measured and monitored as a routine function of the administration.

Examples of agricultural and forest products (IAS 41.4)

Table 1

Biological assets	Agricultural produce	Products resulted through processing after the harvest
Sheep	Wool	Threads, carpets
Trees from a plantation	Logs	Timber
Plants	Cotton	Threads, clothes
	Sugar cane	Sugar
Milk cows	Milk	Cheese
Shrubs	Leaves	Tea, tobacco
Grape vine	Grapes	Wine
Fruit trees	Reaped fruits	Processed fruits

The aspects presented so far show that the classification of the biological assets depending on their life duration is insignificant. With respect to the biological assets, one distinguishes rather between consumable and bearer biological assets. If, according to IAS 41.44, the first group includes the assets that will be harvested as agricultural produce or sold as biological assets, such as the animals meant for meat production and sale, the fish from farms or the cereals such as maize and wheat, the bearer biological assets generate on a regular basis during their life time agricultural produce or other biological assets. For instance, IAS 41.44 mentions animals destined to milk production, grape vine or fruit trees.

Similar to the classification of the assets in long term assets and short term assets, IASB recommends (IAS 41.45) the biological assets to be classified either as mature or immature assets. The mature biological assets are the ones that achieved harvest characteristics and therefore are consumable biological assets. This category also comprises the biological assets that can be periodically harvested (in case of the bearer biological assets).

IAS 41.2 states that neither the plots, nor the intangible assets (such as the production quotas) associated to the agricultural activity are included in the applicability area of IAS 41. On the contrary, according to IAS 16, IAS 40, and IAS 38, for these assets the general provisions will be observed. Since the general possibility from IAS 20 to decrease the government grants to the accounting value of the assets contradicts the fair value accounting, IAS 41.34 offers special provisions for the accounting treatment of the government grants, if the biological assets or the agricultural produce are measured at the fair value less the estimated point-of-sales costs.

II. Recognition and Measurement of the Biological Assets and Agricultural Production

1. Recognition

IAS 41.10 defines special criteria for the recognition of the biological assets and of the agricultural production, criteria that reflects the main conception of the framework concerning the recording as asset. According to this conception, these positions ought to be recognized in assets if and only if:

- the asset is controlled by the enterprise as a result of past events;
- it is probable that future economic benefits associated to the asset will flow into the enterprise and
- the fair value or the acquisition/production cost can be measured reliably.

While according to IAS 41.11, the future benefit is usually calculated by measuring the significant physical attributes, the control can be pointed out by the fact they are legally held (for instance, in the case of a cattle, by their marking when the calf is born or bought).

2. Measurement

(a) General Measurement Provisions

According to IAS 41.12, the measurement of the biological assets at their initial recognition and at each balance date will be made at fair value less estimated point-of-sales costs. Therefore, the distinction between the initial measurement and the subsequent measurement is superfluous. As a result, the depreciation and the impairment of the assets mentioned by IAS 41 are not necessary.

If as an exception, the fair value cannot be calculated reliably, the initial measurement is made at the present purchase or production costs. Unlike other standards such as IAS 16 or 40, the recognition at the present purchase or production costs is not an alternative measurement method, but rather a “credibility exception”. The reason is that IAS 41.30 states the presumption that, in principle, the fair value of a biological asset can be determined reliably and that this hypothesis can be contradicted only at the initial recognition of a biological asset. This is possible only when there aren't prices or market values and when the alternative measurements of the fair value of that biological asset are not evidently reliable.

Example: A forester has just started to plant trees in Oltenia, too. Because of the lack of experiences, namely the lack of comparison data in this field, the fundamentals for a reliable measurement of the wood growth in this region are missing. Because of this, the method consisting in determining every year the fair value less estimated point-of-sales costs is no longer used.

If the biological assets are recorded at the acquisition or production cost, then it ought to be considered special information in the notes, besides the accumulated depreciation and the impairment losses. Moreover, the reporting entity must verify during the transformation process if the fair value cannot be calculated reliably in that period and in this way to pass from the cost model to the fair value measurement; according to IAS 41.56, these modifications have to be motivated and their effects need to be published. IASB presumes that the fair value can be determined more and more reliably, depending on the progress of the biological transformation process.

According to IAS 41.13, the agricultural produce obtained as harvest from the biological assets of the enterprise are to be recognized at the point of harvest at the fair value less point-of-sale costs. These values simulate acquisition or production costs as IAS 2 defines them. In IAS 41.32, IASB considers that at the point of the harvest of the agricultural products, their fair value can be reliably determined. The products resulted through processing after the harvest, such as processing the grapes into wine, is not measured according to IAS 41 any more, but, according to IAS 2, as general recognition provision for inventories. At this point, the production costs of the agricultural produce are determined by the fair value less the estimated point-of-sale costs at the point of harvest. A transition from the fair value accounting to the cost model takes place.

(b) Special Measurement Provisions for Calculating the Fair Value

Similar to other standards, the fair value is defined in IAS 41.8 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. IAS 41.9 prescribes that the fair value has to be based on the current location and state and, therefore, at the measurement date it has to reflect the present state of information. As a result, for a cow we have the market price less transport costs and other costs incurred by bringing the cow on the market.

Unlike the majority of the other standards, IAS 41 contains detailed regulations about determining the fair value. From the fair value of the biological asset or of the agricultural product will be deducted the estimated point-of-sale costs at the point of harvest. In IAS 41.14 are mentioned as examples the commissions of the brokers and dealers, the taxes imposed by the regulation organs and the goods stock exchanges, as well as the transfer and custom taxes. The transport costs and other costs for marketing the product do not belong to the estimated point-of-sale costs and are to be taken into consideration directly when determining the fair value. If as an exception, the estimated point-of-sales costs are higher than the fair value and there is no binding sale contract, then recognition at the amount zero is necessary.

In order to simplify things, the fair value can also be calculated on groups. In this case, the grouping has to be made depending on the significant attributes of the biological assets and of other agricultural produce, such as: age, consumable character, reproduction capacity or quality. As characteristic for the classification has to be chosen the attribute that essentially determines the market price.

Example: For measurement purposes, a wood producer divides his tree plantations depending on their growth and, more precisely, depending on the volume per tree. The division of the afforested area is made depending on the exactly determined growth classes so that the value of the trees is calculated in correspondence with the grouping.

Dividing the biological assets can also be carried out from a regional point of view. This is the choice especially when the biological assets have different characteristics in different regions or when the cost structure is different.

Example: A wood producer with activity worldwide divides his tree plantations in the regions Brazil and Central America, because there are strong differences between the different regions concerning the thickness of the trunk and this characteristic has a decisive influence upon the fair value.

Often, the enterprise closes contracts concerning the subsequent sale of biological assets and agricultural produce. In IAS 41.16 is explicitly stated that the contract's price is relevant for determining the fair value only when it properly reflects the current market situation. If the price of the contract is lower than the fair value less estimate point-of-sale costs, then there is the risk of a loss from an unrealized transaction. IAS 37 will be used for these onerous contracts.

If there is an active market for a biological asset or an agricultural product, then the price quoted on this market is the proper basis for determining the fair value. An active market is defined by IAS 41.8 as a market with the following characteristics:

- The products traded on the market are homogenous;
- The existence of interested buyers and sellers;
- The prices are available to the public.

If the entity can retail its products on different markets, then it has to be taken into consideration the price of the most relevant markets. So as basis for the measurement of the fair value shouldn't be taken into consideration the highest realizable market price, but the fair value of the market on which that entity usually makes its transactions. Since according to IAS 41.12, when determining the value will be taken into account the current condition and localization of the measured asset, then the relevant market price is the amount that best represents the biological asset in the current stage of the biological transformation.

While for many goods the active market is just a theoretical construct, this kind of markets exists for a variety of biological assets and agricultural products. Many agricultural products are traded on institutionalized markets or at goods stock exchanges that are homogenous from the point of view of the attributes of the products. In case of the individual agricultural goods, such as many categories of cereals, we usually deal with the so-called commodity goods, for which no differentiation of the product is possible.

If no active market exists (it's usually the case of the biological assets with a long transformation process), the fair value is determined through comparable market prices. According to IAS 41.18, the determination of the fair value ought to be based on the following points, without any hierarchy being prescribed:

- the most recent market prices of some similar assets, providing that since then no relevant modification of the economic circumstances took place;
- the market prices for similar assets, the difference being treated through adjustments;
- branch standards, where the value is determined through recalculated production measures, such as the value of the cattle expressed as kilograms of meat.

Considering the presented information sources can lead to different conclusions in determining the fair value. According to IAS 41.19, by taking into account the reasons of these differences, the entity will then determine the most reliable estimation from a relatively small interval of reliable estimations.

If the assets to be measured are not available for any active market and there are no comparable prices, then, according to IAS 41.20, the fair value less the estimated point-of-sale costs is determined by the discounted value of the cash flows. This way of finding the value is necessary especially for the assets that need a long transformation process, such as timber. The net cash flows are discounted at a current market-determined pre-tax rate, so that no taxes are taken into consideration. IAS 41.22 forbids including the payments for financing the asset or for producing biological assets after the harvest, such as the costs for replanting the trees of a plantation after the harvest.

The uncertainties and the risks when calculating the discounted cash flows can be considered when determining the fair value either through the discount rate (traditional approach) or in the estimated cash flows (the estimated cash flow approach). A combination of the two methods is also possible, but the double calculus should be avoided. Moreover, when determining the fair value are not included the increases in value due to additional biological transformations and future activities of the enterprise that

are associated to the growth of the future biological transformation, harvests and sales.

In exceptional cases, the fair value can be approximated through the acquisition or production costs. According to IAS 41.24, this happens especially in the following two situations:

- little biological transformation took place since the initial costs, for instance, in case of the fruit trees planted right after the closing date;
- the price is barely influenced by the biological transformation process, for instance for the initial growth in a pine plantation that has a production cycle of 30 years.

If the measurement takes place according to the principle of the historical costs, then the guiding values for different groups of biological assets published by the authorized organisms can be taken into consideration as guiding measures.

IAS 41 doesn't contain detailed information for the measurement of the acquisition and production costs, because of the objective of fair value measurement, but, despite this, IAS 41.33 points out the correspondent regulations from IAS 2. This has as consequence, especially for determining the production costs of the regenerating assets, that all the costs that can be directly attributed to the production process and the ones that can be indirectly attributed will be included. Therefore, when determining the value one must take into account any administrative costs associated with the production, as well as the costs of the social sector.

A characteristic feature of the measurement of the biological assets appears each time they are physical connected to land, such as the trees from a plantation. Many times, in these cases there isn't an isolated active market for such biological assets, but only for combined assets. But the enterprise can use this value as starting point for determining the fair value of such biological assets by deducting, for instance, from the fair value of the combined assets, the fair value of the land where the trees are. This method consisting in calculating a difference is often used in wine-growing.

Example: At the beginning of January, an enterprise buys a vineyard at the price 12 million Euro. 8 millions Euro of this amount correspond to the land and 1 million Euro corresponds to the land amelioration. Therefore, the grape vine has a value of 3 million Euro. The fair value of the grape vine has to be determined at the end of January.

At the closing date, an expert determines the fair value for the cultivated land as being 12.8 million Euro on the whole. The not cultivated land is measured at 8.2 million Euro and the land ameliorations are recognized at an amount of 1.1 million Euro. As a result, the fair value of the grape vine equals 3.5 million Euro.

Determining the value with the „difference method” raises problems in the cases when the value of the land without biological assets is higher than the combined value, as it is usually the case of the arable ground that will be soon used. Because the negative difference that would result doesn't reflect the economic reality, the value of the biological asset associated to the land should be determined by using another measurement method. In this case it is not allowed to apply the simplification through the „method of the difference”.

Since September 2003, IFRIC is mainly preoccupied with the problems of determining the fair value by means of calculating the discounted value. An important issue consists in the requirement from IAS 41.20, that prescribes discounting the cash flows with a „market-determined rate before discounting “, although IAS 41.21 doesn't allow that when determining the current value are taken into account the increases in value resulted from additional biological transformations. In the future, this discrepancy will be eliminated by having in view that the foreseen increase is taken into account when determining the value. On the other hand, it is clearly explained the fact that the value at the point of harvest is not equivalent with the value at the point of measurement. Moreover, in May 2004, IFRIC pointed out the fact that it is not allowed that when determining the fair value the costs of restarting the cultivation are taken into consideration, too.

(c) Recording the result

According to IAS 41.26, the modifications of the fair value less the estimated point-of-sale costs, as well as the initial recognition of biological assets will be immediately recorded in the profit or loss of the reporting period, considering the incurred costs. The costs incurred during the year by increasing the biological added value can represent an important amount in the case of the biological assets with a long transformation process.

Example: At the end of the financial year N, the recorded value of the banana trees was 12 million Euro, and at the end of N+1, the recorded value increased by 13.7 million Euro. During the year N+2, the costs with the personnel and other costs incurred by the biological transformation process were 450.000 Euro. In N+2, the biological added value is 1.7 million Euro. Deducting the costs incurred in N+2, the enterprise has an income of 1.25 million Euro resulted from the variation of the fair value due to the increase.

Recording the value modification in the profit or loss from the period is justified by the fact, that, on one hand, the effects of the biological transformation are immediately made visible, and on the other hand, it is observed the principle of determining the result in correlation with the period. Since because when calculating the fair value, the

estimated point-of-sale costs are deducted, it can appear a loss even when initially recognizing a biological asset.

According to IAS 41.27, at the initial recognition, a benefit could appear each time the fair value at the point of the measurement is higher than the estimated sales costs, such as in the case of the birth of a calf. According to IAS 41.29, at the initial recognition of an agricultural product after harvest a gain or a loss could be incurred.

Example: At 31.12.2001, a calf bred within the entity is measured by the farmer at a fair value less the estimated point-of-sale costs that equals 8.000 Euro. The amount of 8.000 Euro is therefore immediately recognized in the income statement.

There are no regulations concerning the issue of how the assets that are measured at fair value and included in the applicability area of IAS 41 will be eliminated from the accounts. If the sale were recorded, the incomes would be recognized twice according to IAS 18. This is the reason why the elimination is carried out according to IAS 16.7: the gain or loss that results from the recognition of a tangible fix asset will be determined as the difference between the net cashing at the point of sale, if they exist, and the recorded value of the asset.

Example: At 31.12.2002, the fair value less the estimated point-of-sale costs of a calf is 12.000 Euro, while at the previous closing date the recognized value was 8.000 Euro. At 05.01.2003, the calf is sold for 12.000 Euro.

At the end of 2002, it has to be recorded an income of 4.000 Euro; on the contrary, the proper sale is recorded without influence on the income statement (profit or loss account).

III. Government grants

If exceptionally, the measurement of the biological assets is made at the acquisition or production costs, then according to IAS 41.37, the government grants observe the general provisions of IAS 20. But if the biological assets are measured at the fair value less the estimated point-of-sale costs, and if for them government grants are given, then the special provisions from IAS 41.34 will be in force. In accordance with IAS 41.34, the unconditional government grants will be recorded as income only when the grant becomes receivable. The deduction from the recorded value of the correspondent biological assets is not possible, since this does not respect the fair value measurement.

If conditional government grants are offered for biological assets measured at the fair value less the estimated point-of-sale costs, and these can be connected with the receivable resulted from not carrying out certain economic activities, IAS 41.35 allows the recognition of an income only when the conditions imposed for giving

the subvention are fulfilled. Moreover, the existence of an obligation of reimbursing the grant is not allowed.

Example: An enterprise cultivated an arable surface. The government offers a grant of 200.000 Euro under the condition that the surface is being cultivated for ten years. If the surface will be cultivated for a shorter period, the grant must be totally reimbursed.

The government grant will be recognized as income only after ten years of cultivation. The situation would be different if the reimbursement obligation referred to the years of not cultivating the surface. In this case, the amount of 200.000 Euro would be registered as income, proportionally with the time period, meaning 20.000 Euro per year.

IAS 41.57 defines certain disclosure requirements for the government grants. These include:

- The nature and the length of the government grants recognized in the financial statements;
- The unfulfilled conditions and other contingences associated to the grant;
- The significant decreases of the grant's level.

IV. Disclosure on biological assets and agricultural production in the IFRS financial statements

IAS 41 requires a variety of information about the biological assets and the agricultural products. On the whole, the mentions concerning the notes from the annual financial statements form approximately 25% of the entire standard. But IASB doesn't prescribe in IAS 41 where in the financial statements will be presented those pieces of information. As in the case of other standards, in the IFRS accounting, the publicity obligations are generally fulfilled through the notes.

According to IAS 1.68 (f), the biological assets will be recorded separately in the balance sheet. The enterprise will describe in words or quantified (according to IAS 41.44) each group of biological assets. In IAS 41.43, IASB encourages the enterprise to make a quantified description, differentiating between consumable and bearer biological assets and mature and immature biological assets. This differentiation is considered to have a highly informative value, because, this way, the investor can estimate better when the future cash flow will appear.

IAS 1.51 stipulates that the enterprise has to classify the assets in short term assets and long term assets. If biological assets with a production cycle shorter as twelve months are available, their recording as assets on short term doesn't raise problems. But even in the case of very long production cycles, the classification in the category of short term assets would be necessary for two reasons: on one hand, the management's intention consists in a sole use and not in a permanent use of the assets and, on the

other hand, the characteristic of short term assets regulated in IAS 1.57 (a), meaning the consume during the normal production cycle, even if it's longer than 12 months. Therefore, considering the biological assets and the agricultural produce as short term assets is the recording that is usually being made.

IAS 41.40 requires the presentation of the total amount of the gain or loss that appeared during the reporting period due to the initial recognition of the biological assets and agricultural produce and through the modification of the correspondent fair value. IAS 41.51 encourages the entity to divide even more this aggregated information about the global influence upon the result, because a modification of the fair value can take place through a physical modification, for instance through the increase and/or through a price variation. This is why IASB considers that is relevant for the investor that the modification of the fair value is divided into a quantity component and a price component for each group of biological assets. In case of a production cycle of less than a year (it's the case of cultivating cereals) this division can be left aside. If the biological assets are associated with certain risks or special burdens such as restricted property right or with engagements for the development or the purchase of biological assets, this has to be presented as values, according to IAS 41.49. The strategies of financial management associated to the agricultural activity have to be presented, too.

Because the improvement project eliminated the difference between ordinary and extraordinary events in the income statements, paragraph 53 was included in IAS 41. According to this paragraph, the cases in which (extraordinary) events such as floods, drought or frost lead to considerable elements of incomes and expenses, these will be presented separately, by mentioning the nature and the value of the event. For the investor is especially important the reconciliation (required by IAS 41.50) of the modifications of the recorded value of the biological assets during the reporting period, reconciliation that needs to be presented without influence on the income statement. For the reconciliation, the following detailed information is required:

- gain or loss from changes in the fair value less the estimated point-of-sale costs;
- increases due to purchases;
- decreases due to sales and to biological assets that are classified according to IFRS 5 as held for sale (or that belong to a group classified as held for sale);
- decreases due to harvest;
- increases resulted from combinations of entities;
- exchange course differences resulted from the conversion of the financial statements into a foreign unit;
- other changes.

As for determining the fair value, IAS 41.47 stipulates the representation of the significant methods and presumptions applied when determining the fair value of each group of agricultural products at the point of harvest and of each group of biological assets. This provision has a great importance especially if the fair value was determined by calculating the discounted value. IAS 41.48 requires the separate presentation of the fair value less the estimated point-of-sale costs of that agricultural produce that was harvested in the reporting period.

If they aren't presented accordingly in another place in the financial statements, IAS 44.46 (a) requires the description of the nature of the activities connected with each group of biological assets. Moreover, IAS 44.46 (b) prescribes that will also be presented non-financial measures or estimations for the physical quantities of each group of biological assets at the end of the period, as well as the quantity of agricultural products during the period.

Separate information is to be presented for biological assets evaluated at the acquisition or production costs and not at fair value. IAS 41.54 requires the following detailed pieces of information:

- description of the biological assets;
- motivating why the fair value wasn't recognized;
- presenting the estimation interval (if possible) in which the fair value might be placed;
- the depreciation method used, the useful life duration or the depreciation rate;
- the brut recorded value and the accumulated depreciation at the beginning and at the end of the period.

If the entity passes from the cost measurement to a fair value measurement, IAS 41.56 requires the description of the biological assets, mentioning the explanation for changing the measurement, as well as the effect of the change.

V. Conclusions

Most enterprises from the agriculture branch do not belong to the users' circle of IFRS. If they do belong, the measurement of the biological assets and agricultural produce according to IAS 41 means a change in paradigm. This happens because while the provisions of the accounting law, namely the accounting principles, require that such assets should be evaluated through guiding percents or standard production costs, IAS 41 requires recognition at fair value less the estimated point-of-sale costs. Unlike many other IFRS standards, the changes in fair value are immediately recognized in the profit or loss account, with an influence on the result.

Recognizing in the income statement of the changes in value due to the transformation process has the advantage

of a better relevance of the agricultural financial statements for the decision-making process. This can be explained by the fact that the users of the financial statements can appreciate the management's performance in each period, in correlation to the current realities of the market. This stimulates the so-called managerial approach of external reporting. On the other hand, the immediate recognition in the profit or loss account of any change in the fair value

leads to a higher volatility of the annual result and in this way, at a higher prognosis risk for the users of the financial statement. Even if IAS 41 doesn't contain an explicit regulation concerning the issue of whether in the transformation process the incomes can be distributed, for the incomes yet unrealized there should exist a regulation that forbids their distribution, because of substance conservation.

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