

Accounting for Agricultural Operations



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Facts on Agricultural Sector

- India with arable land of 184 million hectares.
- India produces annually 90 million tonnes of milk (highest in the world)
- India produces 150 million tonnes of fruits & vegetables (second largest)
- India has 485 million livestock population (largest)
- India produces 204 million tonnes food grain (third largest)
- India produces 6.3 million tonnes fish (3rd largest) ,
- India has 489 million Poultry and produces 45,200 million eggs.
- India had the “*Green*” Revolution, the “*White*” Revolution, and the “*Blue*” Revolution.

Agricultural Activity

It is

- a specialized activity defined as
- an entity's management of the biological transformation of biological assets for sale,
 - into agricultural produce or
 - into additional biological assets.

Simply said.....

- ❖ raising livestock,
- ❖ forestry,
- ❖ annual or perennial cropping,
- ❖ cultivating orchards and plantations,
- ❖ floriculture and
- ❖ aquaculture (including fish farming)

Features of Agricultural Activity

- ❖ Capability of change,
- ❖ Management of change and
- ❖ Measurement of change.

What are Biological Assets?

Biological assets are living animals or plants, such as

- sheep,
- trees and
- vines.

Biological assets are not those harvested from unmanaged sources.

Financial Analysis

Financial analysis of an agricultural business must focus on both

- Its present position called “Financial Position” and
- The results of operations and past financial decisions called “Financial Performance”.

Financial Measures

Financial measures can be categorized into

- ❖ Liquidity
- ❖ Solvency
- ❖ Profitability
- ❖ Repayment Capacity
- ❖ Financial Efficiency

Accounting for Agricultural Operations is required....

- Increased volatility in net income,
- Increased complexity of the financial structure of farm operations and their accounting transactions, and
- More stringent loan review requirements for lenders.

Books of Accounts

- Journal Books
 - Cash and bank book
 - Purchase Register
 - Sale Register
- Ledger Books
 - Purchase & Sale Accounts
 - Expenditure Accounts
 - Assets Accounts

Source Documents

- Vouchers,
- Bills,
- Receipts,
- Invoices,
- Labor attendance and
- Wage sheets

Financial Statements

- Profit and Loss Account and
- Balance Sheet

Important Papers & Documents

- Agreements & Contracts
- Title Deeds of Assets
- Suppliers
- Contractors
- Service providers
- Dealers
- Agents and their price lists
- Insurance Policies
- Insurance Claims Statements
- Weighment slips
- Physical verification statements
- Licenses & Registration certificates
- Cheque book counter foils and pay in slip counter foils
- Bank Statements

Standards on Accounting for Agricultural Activities

- No existing Accounting Standard on Agricultural Accounting in India.
 - “Statement of Position 85-3, Accounting by Agricultural Producers and Agricultural Cooperatives”
 - IAS 41, Agriculture
 - IPSAS 27—Agriculture
 - AASB 141 – Agriculture by Australian Accounting Standards Board
- (The List is not exhaustive)*

Practices in Agricultural Accounting

- Among agricultural producers there are a number of accounting practices.
- The reasons for this diversity are mainly related to
 - Predominantly cash-based system of accounting
 - Financial statements prepared based on information that are not interrelated
 - Calculations based on Market Value

Balance Sheet

- Capital Asset
- Raised Breeding Stock
- Deferred Tax
- Inventories of Grains and Livestock
- Items for Resale
- Items used as Raw Materials in the Production Process
- Growing Crops
- Loan Programs

Profit & Loss Statement

- Calculation of Gross Revenues and Net Agricultural Income, both on an accrual adjusted basis;
- Unpaid labour and management charges should not be included
- Incidental revenues and expenses to be reported separately

Cash Flow Statement

Reconciliation of net income and net cash flow from operating activities to be provided in a separate schedule

Statement of Net Worth

The format for this statement is based on the decisions made in the selection of valuation alternatives on the balance sheet, as well as certain types of non-recurring items that may, or may not, be included in the profit and loss statement.

IAS 41 on Agriculture

- Agricultural produce is the harvested product of the entity's biological assets
- Managing recreational activities for example, game parks and zoos – is not agricultural activity
- Land owned by the entity and used for agricultural activity is subject to the recognition and measurement principles of IAS 16, 'Property, plant and equipment'.

IAS 41 on Agriculture

- Land owned by a third party and rented to the entity for the purposes of agricultural activity is likely to be the third party's investment property and is accounted for in accordance with IAS 40, 'Investment Property'
- Under IAS 41 biological assets are to be measured on initial recognition and at each balance sheet date at their fair value less costs to sell, though exceptions do exist.

IAS 41 on Agriculture

- One, where the standard permits departure from current fair value: at the early stage of an asset's life; and Two, when fair value cannot be measured reliably on initial recognition an entity can depart from using fair value
- The Fair Value Logic under IAS 41 is as follows
 - Price for the asset in an active market.
 - Recent transaction price for the asset if there is no active market.
 - Market prices for similar assets, adjusted for the points of difference.
 - Sector benchmarks.
 - Present value of the future cash flows expected to be generated from the asset.

IAS 41 on Agriculture

- When it comes to Revenue Recognition, the sale of agricultural produce is clearly revenue as defined by IAS 18, 'Revenue'. Revenue comprises the fair value of the consideration received or receivable only for the sale of agricultural produce and/or biological assets. It is stated net of sales taxes, rebates and discounts.

IAS 41 on Agriculture

- IAS 1, 'Presentation of financial statements', requires revenue to be shown in the income statement; disclosure only in the notes is not acceptable.
- The standard requires the entity should show the carrying value of biological assets, either in total or per group of biological assets using the prior accounting period data as this gives more relevant information.

Issues in Agricultural Accounting

- Valuation Methods
- Treatment of Personal Assets and Liabilities
- Value of Farm Production
- Net Agricultural Income
- Income Tax
- Depreciation
- Treatment of Inventories
- Perennial Crops

Role of CAs

- Establishing the double entry accounting system in local bodies
- Training local talent on maintenance of proper accounting records
- Assisting in the reparation of financial statements Profit and Loss Account and Balance Sheet
- Examining the accounts, records and documents of village local bodies

Role of CAs

- Auditing of Cooperative Credit Societies
- Preparing and Certifying the true and fair view of the financial statements prepared from accounting records prepared according to rules of accountancy and detect frauds and errors
- Auditing of funds spent through various Government Schemes for development of rural in particular agricultural sector keeping the welfare of agriculturist in mind

Role of CAs

- Conducting physical verification of various assets created out of Budget allocations by the Government for development of rural sector
- Auditing accounting transactions, records and documents through internal checks and internal controls
- Offering strict checks against collusion and fraud.
- Revision of systems, procedures and methods for internal controls and checks.

Role of CAs

- Provide assistance in the set up of computer systems for accounting
- Offering support and assistance in computerising areas such as collection of taxes, disbursement of pensions, maintenance of records of development works/welfare schemes, etc. in the village administration offices and ensuring their internal control checks are in place
- ICAI can conduct training programmes for youth in rural areas offering them introduction to the system of accounting, project preparation, working capital management and also educating them on export opportunities

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labour Laws and IPR.*
- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*
- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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Thank You