
IMPROVING THE LEGAL AND REGULATORY FRAMEWORK OF ACCOUNTING OF AGRICULTURAL ACTIVITY

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Abstract: This article is devoted to the consideration of the issues of improving the legal and regulatory framework of accounting of agricultural activity. In particular, the article proves essentiality to develop the national financial reporting standards (NFRS), which ensure accurate accounting of agricultural activity in business entities and its reflection in the financial reporting. In reliance upon the research results, the author has developed relevant proposals and recommendations.

Keywords: agriculture, agricultural activity, asset, biological asset, agricultural product, accounting, financial reporting

1. Introduction

As a result of ensuring execution of the objectives determined in the Resolution of the President of the Republic of Uzbekistan dated February 26, 2021 №PR-5009 “On measures for the implementation of the objectives set in the strategy of the agriculture development of the Republic of Uzbekistan for 2020-2030 in 2021”, “In 2021 compared to 2020, the share of the agricultural sector in the composition of the Gross Domestic Product (GDP) increased by 4 percent. In 2022 the share of the agricultural sector in GDP is forecasted to be 207.6 trillion UZS or 24.7 percent”^{*}.

Definitely, enhancing efficiency of the implementation of the determined priority objectives requires development of agricultural activities in Uzbekistan, creation of a favorable agribusiness environment and the wide introduction of the system of market mechanisms, as well as improving the legal and regulatory framework of accounting of agricultural activities.

2. Literature review

It should be noted that the theoretical, organizational and methodological aspects of the problems related to the improvement of the accounting of agricultural activity are definitely reflected in the research papers and manuals of both domestic scholars, as well as foreign economists. However, some theoretical and methodological aspects of accounting of agricultural activity have been investigated in their research papers. In particular, the approaches of the domestic economists regarding the improvement of the legal and regulatory framework of accounting of agricultural activities are different. In particular, in the opinion of Uzbekistan economists R.D.Dusmuratov and R.K.Rizaev (2020), “If we consider national practice, the concept of biological assets is interpreted differently in accounting legislation and national standards” and they pointed out to the essentiality to account biological assets in the National Accounting Standard №21 in the accounts “Working and productive animals”, “Perennial plants” and “Accounts accounting for animals in cultivation and feeding”.

At the same time, “... in our national accounting standards, the concept of “living animals” in relation to “plants” in the composition of biological assets is expressed more

^{*} Source: <https://www.gazeta.uz/uz/2021/11/11/gdp-2022/>

broadly. Moreover, in “crop production” concept emphasis is placed on perennial plants. Herewith, annual crops (cotton, grain, etc.) included in the agricultural harvest are not taken into account. Furthermore, they emphasize that it is not possible to directly apply the provisions of International Accounting Standard №41 “Agriculture” into the practice of our republic, and it is necessary to develop a modified standard in reliance upon this standard. That is, on the basis of the modified system, it is envisaged to develop “Agrarian sector accounting” or a similar modified standard for the agricultural entities of our republic based on IAS №41 “Agriculture”.

From the point of view of the economist B.Yu. Menglikulov (2019), “Currently the national accounting standards and other statutory acts in force in the republic do not disclose the economic content of biological assets and do not specify the requirements for organizing their accounting” and “it is appropriate to recognize biological assets as a separate accounting category and to apply the provisions of IFRS №41 taking into account the peculiarities of the agriculture of our republic”.

The domestic scholar-economist Z.U. Mukhammadiev (2021) thinks: “It is natural that the requirements and tasks for adjusting national accounting system in compliance with the international standards necessitate the objective necessity to adopt a comprehensive standard for biological assets”. That is why, in our opinion, it is appropriate to approve the procedures related to biological assets in our national standards specified above, in the status of the national standard called “Biological assets”.

In the opinion of Uzbekistan scholars-economists F.T.Temirov and D.Norbekov (2022), “The new version of the Law on Accounting adopted in our country states that “Subjects of accounting can apply international financial reporting standards in accordance with the procedure established by law”. In this regard currently operating business entities, as well as multi-sectoral farms, determine accounting in reliance upon the requirements of international financial reporting standards. This will ensure application of international financial reporting standards, clear definition of its principles, organization with the account of the peculiarities of the sector, as well as improvement of accounting in the agricultural sector. From the point of view of these economists, it is necessary to introduce IFRS №41 “Accounting” and in this regard to improve the accounting system of multi-sectoral farms based on making adjustment in compliance with the national accounting system. However, the opinions expressed by economists are not adequately justified in reliance upon the practical data.

The economist from Uzbekistan O.O. Barakaev (2021) has made the proposal that based on paragraph 3 of the Resolution of the President of the Republic of Uzbekistan №4611 “On additional measures for the transition to international financial reporting standards” dated February 24, 2020 with the aim of adjusting national accounting standards (NAS) in compliance with the international financial reporting standards (IFRS) there has been introduced NAS №25 “Accounting of agriculture” which covers NAS №4 “Inventories” and NAS №5 “Fixed assets” and which is adjusted in compliance with the IFRS №41 “Agriculture”.

3. Research methodology

The theoretical and empirical research methods applied in the research methodology have been widely used investigating the issues of improving the legal and regulatory framework of accounting of agricultural activity. In particular, theoretical research methods such as logical thinking, gathering evidence and posing a problem have been used in the study of current statutory acts. At the same time, empirical research methods of scientific literary sources, statutory acts and case-studies of economic activities, observation and periodical research have been widely applied. These constitute the methodological basis of this research article.

4. Analysis and discussion of results

Currently if we pay attention to our national accounting system, there is no specific regulatory legal document that determines the procedure for organizing, maintaining and reflecting the accounting of agricultural activities in financial statements. Moreover, the essence of the agricultural activity, the concepts of biological assets and agricultural products, which are the main accounting objects in the accounting of agricultural activity, have not been disclosed. In international practice there is International Accounting Standard (IAS) №41 “Agriculture”, which defines agricultural activity as “agricultural activity is the management of the biological transformation and collection of biological assets for sale or conversion into agricultural crops or additional biological assets by a business entity”. In addition, this standard defines the basic procedures for disclosing, recognizing, evaluating, measuring and accounting for the main objects of accounting of the agricultural activity and revealing it in the financial reporting. At the same time, it uses the terms with the following defined meaning (Table 1).

Table 1

Definitions provided in IAS №41 “Agriculture”[†]

№	Term	Definitions
1	A biological asset	a living animal or plant
2	Agricultural product	harvested product of the entity’s biological assets
3	Biological transformation	comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset
4	A group of biological assets	an aggregation of similar living animals or plants
5	Harvest	detachment of produce from a biological asset or the cessation of a biological asset’s life processes.
6	Costs to sell	incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes
7	Balance value	the value of an asset recognized in the statement of financial position
8	Fair value	the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date (IFRS №13 “Fair value measurement”)
9	Public grants	Definition provided by IAS №20 “Accounting for public grants and disclosure of the government aid”

From this definition it is obvious that the main object of accounting of agricultural activities of business entities is biological assets and agricultural products.

These assets are reflected in the current accounting regulations as a type of long-term and current assets. In particular, the procedures for their recognition as assets, evaluation, organization and maintenance of accounts and their reflection in financial statements are defined in the following statutory acts (Table 2). It should be noted that specified above statutory acts demonstrate that in our national accounting system, separate accounts are not intended in NAS №21 for summarizing information on the movement of assets called “biological assets” and “agricultural products”, which are the object of accounting of agricultural activity. Furthermore, these assets are reflected as “fixed assets” and “inventories” in the financial reporting.

[†] Developed by the author based on the data of IAS №41 “Agriculture”.

Table 2**Statutory acts aimed at regulating agricultural activities
in the Republic of Uzbekistan[‡]**

№	Applicable statutory act	Notes
1	Law of the Republic of Uzbekistan “On Accounting”	It defines the procedures for asset valuation, income and expense accounting. In addition, these procedures are directly related to agricultural activity and its accounting objects, biological assets and agricultural products
2	National Accounting Standard (NAS) “Conceptual Framework for the Preparation and Submission of Financial Reporting”	It determines the definition of assets, their recognition, evaluation, measurement and accounting principles. In turn, they also apply to biological assets and agricultural products that are the object of agricultural activity accounting
3	National Accounting Standard (NAS) №1 “Accounting Policies and Financial Reporting”	It determines the definition of assets, their recognition, evaluation, and accounting policy development procedures. These established procedures constitute the basis for accounting of agricultural activity and its accounting objects, biological assets and agricultural products
4	National Accounting Standard (NAS) №4 “Inventories”	It determines the definition of reserves, their recognition and evaluation, as well as the rules for accounting. They are related to accounting of animals, plants and agricultural products in cultivation and feeding, which are part of short-term biological assets that are the object of agricultural activity accounting. They are related to accounting of animals, plants and agricultural products in cultivation and feeding, which are part of short-term biological assets that are the object of agricultural activity accounting.
5	National Accounting Standard (NAS) №5 “Fixed assets”	The procedures for definition, recognition, evaluation, measurement and accounting of fixed assets are determined, and they are also relevant to working and productive animals and perennial plants, which are the part of long-term biological assets that are the object of accounting of agricultural activity
6	National Accounting Standard (NAS) №19 “Organization and conduct of inventory-taking”	It defines the procedures for organization and conduct of inventory-taking in business entities. These established procedures include the inventory taking of biological assets and agricultural products that are the direct object of agricultural activity accounting.
7	National Accounting Standard (NAS) №21 “Chart of accounts of financial and economic accounting accounts of economic entities and Instruction on its application”	It determines the procedure for reflecting the elements of financial reporting (assets, liabilities, capital, income and expenses) and business operations related to them in the accounts in compliance with the rules of accounting. It specifies separate accounts and procedures for accounting for biological assets and agricultural products, which are the direct object of agricultural activity accounting

[‡] Developed by the author in reliance upon the comparative analysis of sources

As it is known, with the aim of providing transition to international financial reporting standards in our republic there was adopted the Resolution of the President of the Republic of Uzbekistan №PR-4611 “On additional measures for the transition to international standards of financial reporting” dated February 24, 2020 (Resolution 2020). Based on this Resolution, legal entities included in the category of joint-stock companies, commercial banks, insurance organizations and large taxpayers, starting from January 1, 2021 have to organize accounting on the basis of the IFRS and prepare their financial statements in reliance upon the IFRS.

It is obvious that if the legal entities belonging to the above category are engaged in agricultural activities, they will create, maintain and reflect in the financial report the account of this activity on the basis of the procedures established in IFRS №41. However, there are thousands of business entities engaged in agricultural activities (farms, agroclusters, cooperatives, limited liability companies, etc.) that do not fall into this category, and the accounting of agricultural activities is regulated on the basis of national accounting standards (NAS). Then information on how to organize and maintain the accounting of agricultural activity based on the NAS and how it is reflected in the financial reporting is presented in Table 2.

5. Conclusion and proposals

We would like to make the following conclusions and proposals regarding improvement of the regulatory and legal basis of accounting for agricultural activities based on the current legal and regulatory framework, international experience and the opinions presented in the educational, research and methodological works of economists:

first, according to the Resolution of the President of the Republic of Uzbekistan №PR-4611 “On additional measures for the transition to international standards of financial reporting” dated February 24, 2020, legal entities engaged in agricultural activities are divided into two categories in terms of keeping accounts of assets that are the object of this activity of the accounting (Table 3).

Table 3

Classification of business entities engaged in agricultural activities[§]

First category	Second category
Business entities:	
Joint-stock companies and legal entities included in the category of large taxpayers	Farms, agroclusters, cooperatives, limited liability companies, agrofirms and other legal entities not included in the first category
Accounting objects of agricultural activity:	
Biological assets, agricultural products	Working and production animals, perennial plants, livestock and breeding animals
Basic standards determining accounting of the accounting objects:	
IFRS (IAS) №41 “Accounting”, IFRS (IAS) №16 “Fixed assets”, IFRS (IAS) №2 “Reserves”	NAS №4 “Inventories”, NAS №5 “Fixed assets”
Composition of the financial report:	
Statement of financial position at the end of the period; Statement of profit or loss and other consolidated income for the period; Statement of changes in equity for the period; Cash flow statement for the period; Notes	Balance sheet; Statement of financial results; Cash flow statement; Statement on equity; Notes, explanations and calculations

[§] Developed by the author in reliance upon the comparative analysis of sources

It is known that this Resolution determines execution of such tasks as “Improvement of national accounting standards with the account of adjusting them in compliance with the IFRS” and “Revision of statutory acts with the account of introducing the IFRS”. In this regard we propose to develop the unified national financial reporting standard (NFRS) that ensures accounting of agricultural activities in business entities and their reflection in financial reporting in compliance with the Law of the Republic of Uzbekistan “On accounting”. This measure will promote the execution of the objective of adjusting national accounting standards in compliance with the international financial reporting standards and enable business entities to account for agricultural activities in reliance upon their peculiarities.

second, the structure of this standard combines international and national experience and based on the specific characteristics of agricultural activity. In our opinion, it should reflect the following issues (Table 4).

In our opinion, it ensures accounting of agricultural activities in business entities and reflects them in financial reports. As it has been noted above, the structure of the National Financial Reporting Standards ensures that it is relevant, reliable, understandable and simple for the needs of users.

Table 4

Composition of the National Financial Reporting Standard which ensures accounting of the agricultural activity of business entities and reflection in the financial reporting (proposal)**

Chapter	Composition
Aim	This national financial reporting standard (NFRS) provides accounting and financial reporting of agricultural activities in business entities in compliance with the Law of the Republic of Uzbekistan “On Accounting”.
General provisions	Chapter of general provisions defines the scope of application of this standard, definitions of the main terms, economic categories and concepts related to agricultural activities.
Recognition	The chapter on recognition specifies the conditions for recognition of assets related to agriculture. In particular: - if the entity controls the asset as a result of past events; - if there is a probability that the entity will receive future economic benefits related to the asset; - conditions are defined as if the fair value of the asset can be reliably estimated.
Valuation	This chapter specifies the valuation methods of biological assets and agricultural products, which are the object of agricultural activity accounting, and the rules of their application. In particular, the procedure for the initial recognition and valuation of these assets at the end of each reporting period is clarified.
Profit and loss	This chapter demonstrates the procedure for recognizing and reflecting in financial statements the profits and losses arising from biological assets and agricultural products that are the object of agricultural activity accounting.
Disclosing data	This chapter clarifies each group of biological assets and agricultural products, which are the object of agricultural activity accounting, and the procedure for disclosing the data about the changes that occur in them.
Final provisions	This chapter outlines the entry into force of this standard and its transition rules, amendments and exclusions.

** Developed by the author in reliance upon the comparative analysis of sources

Thus, taking into consideration the above proposals on improving the legal framework of accounting of agricultural activity will enable the following:

- development of the national financial reporting standard (NFRS) is aimed at improving the recognition, evaluation and accounting of assets related to agricultural activities in business entities as an accounting object and element of financial reporting, as well as the procedure for reflecting them in financial reporting with the account of adjusting them in compliance with international financial reporting standards. In addition, the development of NFRS facilitates the process of providing information users with the relevant accurate data in due time, as well as promotes the process of making rational management decisions;

- logically consistent formation of the structure of the NFRS and full coverage of all aspects of agricultural activity are ensured;

- the procedures for accounting of accounting objects are explained in each structural component. This will certainly enable to be simple and understandable for the user;

- establishing the mechanisms for implementation of accounting methods in compliance with the specific characteristics of agricultural activity.

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