

## BIOLOGICAL ASSETS IN FOCUS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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### ABSTRACT

The aim of this article is to describe the standard of biological assets in local level and then to compare it with the international one. NAS 10 Biological Assets has changed with effective date 1 January 2015. But this change has been done according to the IFRS for SME. This is a new international standard that is not as useful as IAS 41. In the meantime, IAS 41 continues to change to improve the financial report for biological assets. The improvements or IAS 41 are a step forward relating to the improvements of IFRS for SME, especially for the techniques of valuating the fair value. IFRS for SME together with NAS 13 continue to use the old techniques for this new method of evaluation. This is what one of the things that imply both standards. But local standard is not as the international one. The local standards continue to prescribe what happens to the subsequent expenses after the initial recognition. Something that is not mentioned to the international standards. Instead of that is prescribe it does not treat the grand for biological assets. A better local standard means a better high possibility of implementing it and on the other side it means a qualitative financial reporting and a better source information that express clearly the reality. In nowadays when the information is ready and opened for every user there is no sense to be improved not for better.

**Keywords:** Accounting Standards, Biological Assets, Accounting Policies.

### 1. INTRODUCTION

Agriculture is considered as a very important sector of the economy that based on its contribution to the Gross Domestic Product by about 19% of it. However concluded that the growth rates of this sector are lower than those of entire economic growth as stated by the government. For this reason, given the recent developments in the context of European integration, increasing of agriculture is a challenge that is seen as a priority aimed at developing production and marketing of healthy products. Government prioritize its links with agriculture cooperatives aiming a new organization of production, greater opportunities for products according to standards required by the market not just regional but that of EU also.

It is known that the fragmentation of land are unable to bring application of economies of scale in agriculture, this raises the problem of the creation of cooperatives in agriculture in order to reduce the cost of products provided. Independently of this for as long as the farm size remains small and does not allow high levels of production efficiency and effectiveness of the activity back to the most important problem for their leaders. The more and true and

fair view the financial information will be the more accurate will be the decision taken. The same accurate information enables these business units to ensure reliability from financing institutions and funding opportunities missed until now. Is this why we chose to focus our research on innovation that brings accounting standard for biological assets in order to compile financial reports that brings fairer and reliability information for stakeholders. On the other hand our research is viewed as a new approach for studies which have long been neglected in research related to agricultural activity, despite the importance of this sector to the economy at present.

It is known that the reasons for the change of the financial reporting standards aimed at bringing as much of the theory and practice and facilitating the implementation of accounting standards. For the first time accounting and financial reporting standards of biological assets is adjusted in order to merge changed to the market economy system with Law no. 7661, dated 19.01.1993 "On accounting".

Following years, internal developments and external adaptation revealed the alignment, to switch gradually to the implementation of international accounting standards and international financial reporting ones. Difficulties and costs to implement the full version on international standards was the reason to draft local standards. Entities would report in a differentiated manner as determined by the law no. 9228, dated 29.04.2004 "On Accounting and Financial Statements," as amended by Law no. 9477, dated 09.02.2006, and to DCM nr.742, dated 07.11.2007 "Criteria for the selection of entities that must comply with international accounting standards."

What we seek to bring in this paper is to give the full context of changes in the accounting standards related to biological assets and their financial reporting information. And then we will stop to differences in treatment between local and international accounting standards that will show the elements that should consider foreign investors if they read the financial statements prepared by companies organized and operating in Albania in the agricultural sector. It is important to evaluate the differences in results if we would have analysed a company which is part of a foreign group and is forced to implement international standards.

## **2. What changes did brought the improvements made recently?**

After about a decade the national accounting standards were amended to reflect ongoing changes in international accounting field and partial transposition of European directives in the field of reporting. By order of the Minister of Finance no. 64, dated 07.22.2014 "On the Promulgation of improved national accounting standards and their obligatory implementation" the improved local standards become mandatory for implementation starting from 1 January 2015. In recent upgrades is seen a radical change in method of measurement and subsequent evaluation of biological assets. But where do the improvements consist for new accounting treatment for biological assets?

NAS 13	NAS 13 Improved
On initial recognition a biological asset shall be measured at its cost.	On initial recognition a biological asset shall be measured at its fair value unless it can be measured with undue cost; otherwise it can be measured with its cost.
After recognition as an asset, a biological asset, shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses, or its cost less any accumulated impairment losses	A biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs
	If fair value can not be measured without undue cost, a biological asset, shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses <i>From this improvement can be seen that improved standard present allowed standard method and suggested alternative method.</i>
For the biological assets impairment and compensation of impairment are treated the same as actual cost model.	Implementing fair value model does not allow implementing impairment losses.

### 3. What effects make these improvements in financial reporting of biological assets?

Presentation of financial statements for biological assets at each balance sheet date is very specific because these assets over the accounting period undergo quantitative and qualitative changes. In the new financial reporting improvements, not related to the treatment of biological assets presentation of financial statements in applying the amortized cost model, the simplification of disclosures in order to reduce the cost and time of preparation of the financial statements, but in not required to appear on the amount of the impairment and its compensation, always if the cost model is used. Noted that the preparation of financial statements according to improved standards will be done prospectively, without the need for compiling the financial statements of at least two previous accounting periods. So continue with the spirit of the purpose of reducing the cost of business.

What we have observed is that improved standard does not answer random change in accounting policy for coming periods, referred to the fact that the change in accounting policy is clearly explained in the first implementation of standards.

### 4. The differences between improved NAS and IAS

For all readers are familiar with accounting standards is recognized that national standards are simplified adaptation of international standards and between the two levels of standards differences that affect and have an impact on what is known as the financial result of agricultural activity. Does this impact is therefore sensitive to the outcome of the two standards is near or material changes depends only by analyzing the differences between the two sets of standards. For this we have tried to highlight the differences gives an answer to

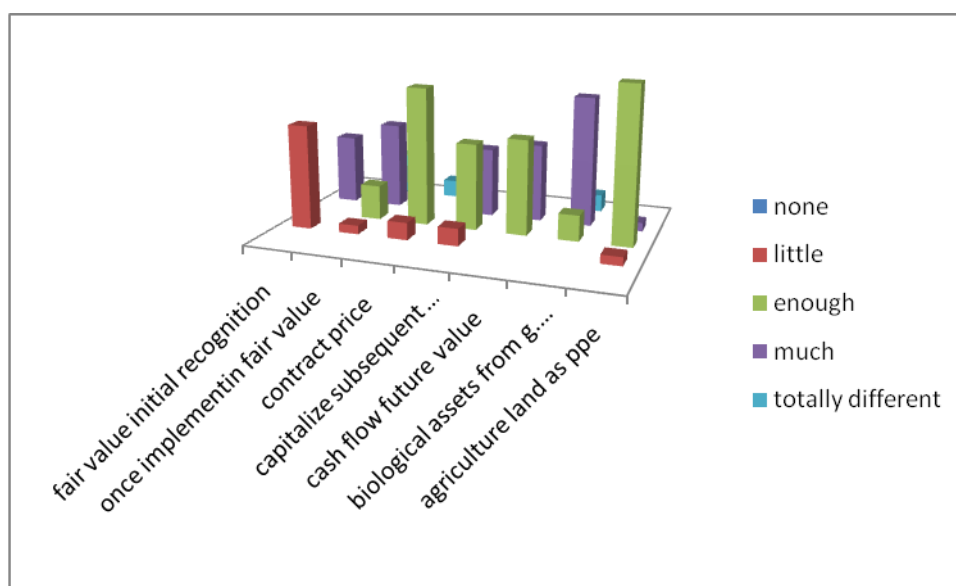
the main question what is the difference in results that are used in international standards referred to national standards even after recent improvements?

Once we made a comparative analysis we managed to determine the key elements that distinguish between the two frameworks that regulate agricultural activity.

IAS 41 (Agriculture)	NAS 13 (improved)
A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably.	A biological asset shall be measured on initial recognition its fair value or its cost.
Once the fair value of such a biological asset becomes reliably measurable, an entity shall measure it at its fair value less costs to sell. In such case it is clearly prescribed the way of changes in the accounting policy.	Such case is not treated here.
Entities often enter into contracts to sell their biological assets at a future date. Contract prices are not necessarily relevant in measuring fair value, because fair value reflects the current market conditions in which market participant buyers and sellers would enter into a transaction. As a result, the fair value of a biological asset is not adjusted because of the existence of a contract. In some cases, a contract for the sale of a biological asset may be an onerous contract, as defined in IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> . IAS 37 applies to onerous contracts.	Such case is not treated here.
Not defined explicitly accounting for subsequent expenses that occur after the initial recognition of biological assets. There continue to be two of the models under which the treatment of such expenses can be added to the carrying amount of the biological asset or can be accounted for as period expenses, in both cases the effect is same	It is clearly defined the treated of subsequent expenses incurred during the accounting period and after the initial recognition of biological assets, they must be accounted for and included as part of the carrying amount of biological assets.
One way for defining the fair value is by discounting future cash flows.	Such case is not treated here.
In separate paragraphs are prescribed biological assets received as government grants.	Such case is not treated here.
Referring to the most recent updates of IAS is addressing the problem of assessing the biological assets "as the difference". Specifically is the case when the asset is	Such case is not treated here.

associated with agricultural land, which will be the fair value of each if different from the total fair value of the two assets.

To be more clear what are the effects, how much is the materiality of the financial statements because of these differences, we have estimated the scale from 1 to 5 how would affect the financial performance of a company which compile financial statements based on this standard. The assessment of refers to the analysis of questionnaires distributed to 20 units operating in the agricultural sector.



Referring to the most recent updates to IAS 41, which become effective on or after January 1, 2016, manufacturing plants not only appear more biologically active, but for as property, like farmland. Makes only difference whether they are produced (IAS 41) or cultivated (IAS 16) as if the entity to build itself a property. The question in this case is that when will be reflected such a change in our local NAS.

We note that IAS change every year, so the level that we are reconciled in real time is powerful challenge despite the efforts of the National Accounting Council.

## 5. CONCLUSIONS

Change of financial reporting standards has significant impact not only on the micro level entities themselves, but also at the macro level for the entire economy as a whole. Engaging as trained personnel and provide resources needed by businesses should be accompanied by the commitment of relevant institutions in implementation and supervision by regulators. These changes have implications for both the income for those entities by national taxes. Also techniques of measurement and presentation format affect the value of real property units and respective industry. This means that the appropriate period of change and model tends toward which this change should be determined carefully and study.

The most recent changes in the NAS are oriented content toward IFRS for SMEs, and as a presentation format, are aligned with Directive 4 and 7. The EU itself has changed Directives 4 and 7 and has updated them into a single directive "Directive 2013/34 / EU of the European

Parliament and of the Council of 26 June 2013 on the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain Types of undertakings, amending Directive 2006/43 / EC of the European Parliament and of the Council and repealing Council Directive 78/660 / EEC and 83/349 / EEC in the Official Journal on 29 June 2013 ". This again means that the financial reporting requirements will vary. Currently work is being done to transpose the new directive on accounting law which is expected to change until the end of 2015.

From the changes implemented so far observed that the purpose of simplifying the NAS and the practicality of their growth has also led to the reduction of the information required to be shown, as in the case of disclosures for the cost model. It cannot be denied that has happened the opposite too during this work such as the case when adding applications or input on improved NAS is needed compared to IAS.

Improving of NAS in some cases is trying to align with the best practices of IAS but did not present their full model. It seems as if the drafters had intended to express such a thing but never reported. This absence full harmony with IAS will bring again the need for further improvements of NAS.

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