

# INTERNATIONAL FINANCIAL REPORTING STANDARDS IN THE AGRICULTURAL SECTOR AND THEIR INTRODUCTION TO THE PRACTICE OF UZBEKISTAN



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**Abstract:** The article presents conclusions and proposals based on the study of the aim of IFRS 41 "Agriculture", developed by the Committee on International Financial Reporting Standards (Fund), the scope of its implementation and its application in the agricultural sector of the country.

**Key words:** biological assets, agricultural crops in the harvesting process, biological transformation, selling expenses, book value, fair value, modified standard.

## Introduction

Our economy is gradually getting stabilized on the basis of measures aimed at mitigating the effects of the global pandemic. In compliance with the Resolution of the President of the Republic of Uzbekistan № 4611 "On additional measures to shift to the International Financial Reporting Standards" dated February 24, 2020, since January 1, 2021 joint-stock companies, commercial banks, insurance companies and enterprises included in the category of major taxpayers organize accounting on the basis of IFRS, and there is scheduled preparation of financial statements for 2021 on the basis of IFRS (PR-4611, 2020). However, in recent months, the impact of the coronavirus pandemic has slowed down implementation of the IFRS and the preparation of financial statements, i.e. implementation of the objectives set in the "Roadmap".

According to the Resolution of the President of the Republic of Uzbekistan № 4611, as well as on reliance upon the "Roadmap" for the gradual introduction of international financial reporting standards it is necessary to improve National Accounting Standards (NAS) by adjusting them in compliance with the IFRS. To achieve this aim, the following urgent tasks have been set up:

*first*, preparation of comprehensive information on significant differences between national accounting standards and the IFRS with the involvement of international experts;

*second*, developing new national accounting standards and making amendments into existing national standards.

The Ministry of Finance of the Republic of Uzbekistan in cooperation with public associations of accountants and auditors and leading higher education institutions is actively working to ensure the implementation of these assignments. In particular, the Ministry of Finance and the Tashkent Institute of Finance in collaboration with professors and lecturers of the Department of "Accounting" are working on a number of IFRSs to amend the current National Accounting Standards (NAS) and ensure their compliance with IFRS.

The Resolution of the President of the Republic of Uzbekistan "On approving the Concept of socio-economic development of the Republic of Uzbekistan until 2030" stipulates double increase of the gross domestic product (GDP) per capita, increase of the economy growth rates by 6,4 percent, capital placements by 9,9 percent, export by 9,6 percent and production of agricultural goods 1.8 times. About 500 clusters and cooperatives have been

set up in fruit and vegetable growing, grain raising and animal husbandry. As a result, despite the negative impact of the pandemic, the export of fruits and vegetables amounted to 1 billion USD (Sh. Mirziyoyev, 2020).

This fact justifies that the accounting and reporting system, which in turn, contains reliable information about these figures, must be perfect at the international level. In this regard, significant reforms have been launched in the country to shift the accounting system to the International Financial Reporting Standards (IFRS) and their further application in practice. It is not for nothing that, definitely, because the inflow of foreign investment and foreign trade (export and import operations) provides great (listing) opportunities for enterprises, including agricultural enterprises. In this regard, the application of standards developed by the Committee on International Financial Reporting Standards (Fund) to the practice of our country is considered one of the most essential issues. One of such standards is International Accounting Standard 41 "Agriculture".

This standard differs from standards that can be applied to other areas and has its own peculiarities. As a result, amendments to current national accounting standards or the development of new standards in compliance with the requirements of IFRSs have become one of the most urgent issues. One such standards is the International Standard 41 "Agriculture".

Application of this standard enables to adjust this standards in compliance with the international requirements and further improve in line with world standards. This standard indicates for the first time that biological assets and agricultural products in the harvesting process are recognized as separate units of account.

Thus, this standard has its own peculiarities, and its application in practice requires formation of in-depth knowledge and practical skills of specialists in the field, as well as the study of foreign experience.

### **Literature review**

It should be noted, that there are various approaches to the concepts of standards and financial reporting standards in the economic literary sources. In particular, the term "standard" is used in comparison with other similar objects, which means "standard" (of English origin) - a norm, sample, standard, model.

*International Financial Reporting Standards (IFRSs)* are the set of international accounting standards that specify that the financial statements should reflect certain types of transactions and other events.

*International Financial Reporting Standards* are the set of documents governing the preparation of financial statements required for external users to make economic decisions about the company.

An *accounting standard* is the document that determines the requirements for accounting, as well as the optimal methods of accounting. Standards are divided into international, national, organizational standards (economic entity).

In reliance upon International Financial Reporting Standards, public agencies have been established in countries around the world. These agencies are involved in developing standards at the national level. They are the following: ICAP (Pakistan), ASBJ (Japan), ASB-SA (South Africa), ASRB (New Zealand), FASB (USA), MASB (Malaysia), Iran IASB (Iran), SASC (Singapore), KSR PASB (Poland) and so on.

The definitions and approaches to International Financial Reporting Standards serve the same purpose, which is to ensure the uniformity and a single approach to accounting on a global scale. In particular, "The idea of standardization of accounting processes is implemented by the IFRS Committee through the development and publication of international financial statements. The essence of this approach is to develop a single set of standards that can be applied in any country in any situation, which can cause abandonment of national standards" (Generalova, 2008). These ideas fully comply with the process of transition of the accounting system to the IFRS in the country because application of uniform standards automatically diminishes significance of national standards.

In the opinion of N. Sapochnikova, "The essence of the approach to International Financial Reporting Standards is to develop a single set of standards that includes the principles and rules of financial reporting and can be applied in any country".

The consistent, unrestricted, full application of the high-quality IFRS, which covers all aspects of accounting and reporting, ensures necessary transparency of financial statements for all potential users. Each standard includes a complete list of information that should be disclosed in the financial statements, as well as classification and measurement issues. The reliability and transparency of information is determined by the willingness of report makers to strictly observe established standards (Proskurovskaya, 2008).

Reliability and transparency of the IFRS applied by report makers represents synthesis of modern knowledge about the economics of the business entity, summarizing the global business experience. They have been developed by various economic experts, so it is a symbiosis of management and reporting data. IFRS are not strictly defined guidelines, although they are generally accepted, their priority in the preparation and disclosure of financial statements is not compulsory, but rather focuses on voluntary use (Dmitrieva, 2007).

The views expressed by V. Getman on the harmonization of financial statements of business entities engaged in export and import operations in the country in accordance with IFRS and their inclusion in the listing are fully consistent. In particular, "IFRS has a number of advantages: it enables commercial agencies to improve the quality of management information, enhance transparency of financial statements, reduce borrowing costs, facilitate international business and allow companies to be listed" (Getman, 2012).

International Financial Reporting Standards are a system of international principles applied for preparation of financial statements. They are widely used and accepted as a basis for preparing financial statements in many countries. IFRSs reflect the following set of documents: introduction to IFRS provisions, principles of preparation and presentation of financial statements, standards and explanations to them. These documents are interrelated, form a single system, and cannot be applied separately, although each has its own meaning (Babaev, 2012).

"Accounting Standards" can be determined as a clear set of rules governing accounting. The word "rule" can be strict norms established by law or basic principles accepted by the public. By setting clear requirements for a standard accounting object or financial reporting element, it differs from accounting models in that it defines general directions of accounting (Ibragimov, 2016).

From these considerations, it is clear that the application of international financial reporting standards or the harmonization of its provisions with the national economy, regardless of the field, has currently become crucially important.

### **Research methodology**

International Financial Reporting Standards in the agricultural sector, including the essence and scope of IFRS 41 "Agriculture", as well as the methods of analysis, such as induction and deduction, analysis and synthesis, systematic approach, logical thinking, monograph observation, comparison in the application of its provisions in the practice of Uzbekistan have been widely used in this research paper.

### **Analysis and results**

Standard "Agriculture" (IFRS 41), developed by the International Financial Reporting Standards Committee (Fund), applies to annual periods beginning on or after 1 January 2003. The aim of the standard is to determine the accounting approach to the agricultural activities and the data to be disclosed.

This standard defines agricultural activity as the management of the biological transformation and accumulation of biological assets by an entity for sale or conversion into agricultural production or additional biological assets. Below we consider the definition of key terms given in the standard, including:

*An agricultural crop* is a product of biological assets harvested by an economic entity.

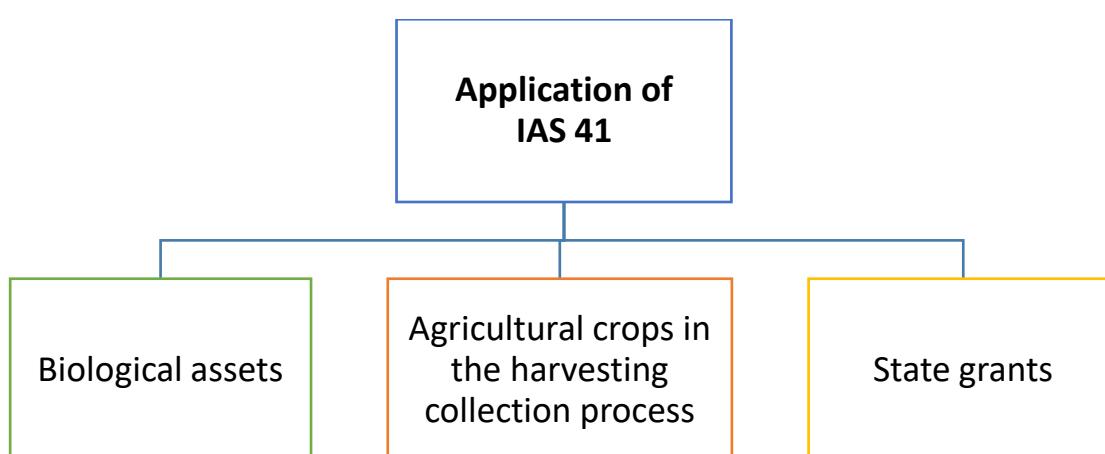
*A biological asset* is a living animal or plant.

*Biological transformation* is the process of growth, degeneration, production and reproduction that results in the qualitative and quantitative changes in a biological asset.

*Selling expenses* are additional direct costs associated with the write-off of an asset in addition to financing costs and income tax.

*Harvesting collection* is the separation of a product from a biological asset or the termination of a biological asset's life process.

It is applied to the accounting of the following items of the standard referred to the agricultural activity:



**Figure 1. Application to the accounting of standard.**

As can be seen from this figure, the standard rules apply only to the agricultural crop in the harvesting collection process, i.e. to the separation of the harvested product from the biological assets of the agricultural entity. In further processes (for example, processing), this

is directly applied in IAS 2 "Inventories" or other relevant standards. In this regard it is necessary to apply IFRS № 41 for the process of harvesting collection of agricultural products in the clusters established in the country. For example, in the seed cluster, cotton is considered a biological asset as a plant and an agricultural crop as a raw material for cotton. Other standards apply to yarn and garments resulting from its post-harvest processing.

The provisions of this Standard do not apply to agricultural land (IAS 16 "Property, plant and equipment" and IAS 40 "Investment Property") and intangible assets related to agricultural activities (IAS 38 "Intangible Assets").

Hence, while processing processes constitute logical and natural continuation of agricultural activity (seed cluster), the processes that occur cannot be included in the scope of agricultural activity in this standard, despite some similarities in biological transformation.

**Table 1**

**Definitions of International Accounting Standard 41 "Agriculture"**

<b>No</b>	<b>Term</b>	<b>Definition</b>
1.	<i>Agricultural yield</i>	Harvested product of the biological assets of the agricultural entity
2.	<i>Biological asset</i>	A living animal or plant
3.	<i>Biologic transformation</i>	Covers the processes of growth, reproduction, production and reproduction that result in changes in the quality and quantity of biological assets
4.	<i>Biologically active group</i>	Generalization of similar living animals or plants
5.	<i>Harvest collection</i>	Separation of a product from a biological asset or the termination of a biological asset's life process
6.	<i>Selling expenses</i>	In addition to financing costs and income tax, there are additional direct costs associated with the write-off of an asset
7.	<i>Balance (book) value</i>	It is the value of the asset that is recognized in the statement of financial position
8.	<i>Fair value</i>	Valuation is the price that can be obtained from the sale of an asset in a typical transaction between market participants at the valuation date or paid in the transfer of an obligation (IFRS 13 "Fair Value Measurement")
9.	<i>State grants</i>	As defined in IAS "Accounting for State Grants and Disclosure of State Assistance"

Referring to national practice, the concept of biological assets is interpreted differently in accounting legislation and national standards. In particular, in the National Accounting Standard 21 (Guidelines for the application of the chart of accounts of financial and economic activities of economic entities, Part 1, Clause 2) the following are accounted by the following accounts: "Working and productive animals", "Perennials" and "Accounts for breeding and raising animals":

*Working animals used as labor, such as horses, oxen, camels, mules and donkeys and other working animals (as well as animals used as a means of transportation) and products (breeding, milk, wool, etc.), such as cows, ewes, sheep, goats, etc. are accounted in the "Working and productive animals" account.*

*Landscape, decoration, fruit and berry trees and plants, green walls, etc. are accounted in the "Perennials" account.*

*"Accounts for breeding and raising"*

*Young animals belonging to the enterprise; adult animals in pastures, pastures; birds; wild animals; rabbits; bee families; made unfit for sale from the main herd for sale (without feeding). Generalization of information on the availability and movement of cattle received from the population for sale is implemented in the following accounts: "Animals in breeding" and "Animals in fattening".*

Thus, in our national accounting standards, the concept of "living animals" is more broadly defined than "plants" in the composition of biological assets. "Planting" also denotes perennials. Annual crops (cotton, grain, etc.) included in the agricultural crop are not taken into account.

IAS 41 "Agriculture" refers to such aspects, as biological assets, agricultural yields and post-harvest processing:

**Table 2**  
**Aspects related to agricultural products**

<b>Biological assets</b>	<b>Agricultural yield</b>	<b>Products obtained as a result of post-harvest processing</b>
Sheep and goats	Wool fabric	Spun yarn, carpet
Trees in the woods	Cut down trees	Wood, sawn boards
Plants	Cotton	Yarn, clothing
	Collected reeds	Sugar
Cattle	Milk	Cheese
Pigs	Meat	Sausages
		Canned meat
Shrubs	Leaves	Tea
		Dried tobacco
Grape trees	Grapes	Wine
Fruit trees	Picked fruits	Processed fruits

It is known that agricultural activities cover a wide range of activities: for example, animal husbandry, forestry, cultivation of annual or perennial crops, maintenance of gardens and plantations, floriculture and aquaculture (including fishing).

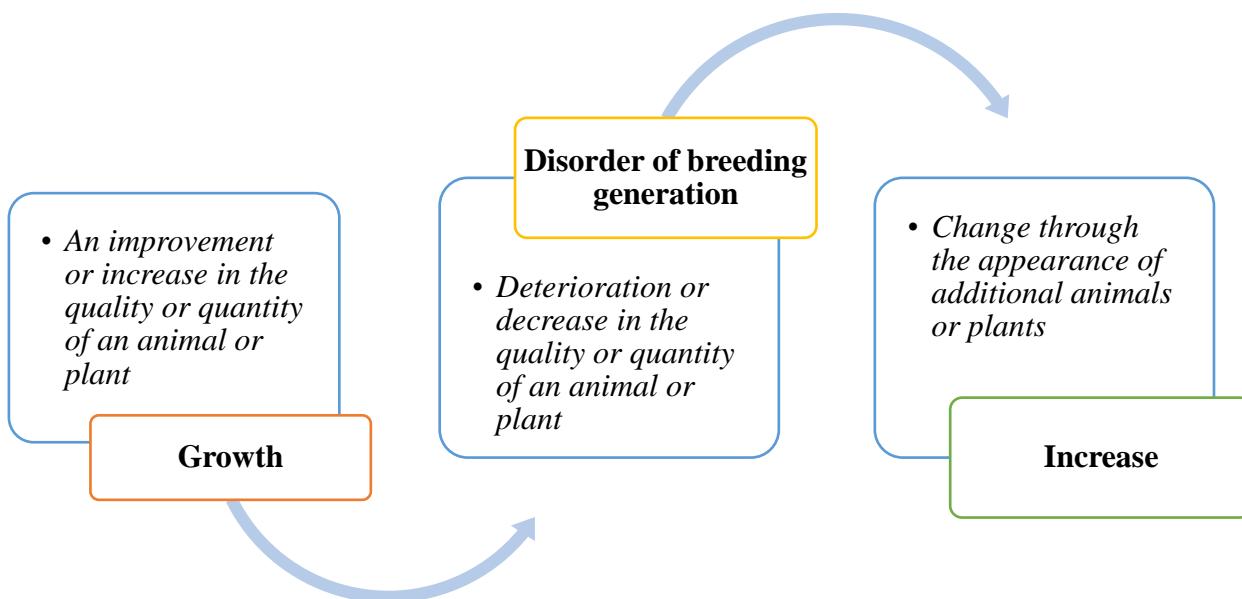
As a result, they have the following certain common features:

*Ability to change.* Living animals or plants have the ability for biological transformation;

*Change management.* Management facilitates biological transformation by improving, or at least stabilizing conditions required for the process to occur (e.g., nutrient levels, humidity, temperature, yield, and light). Such management distinguishes agricultural activities from other activities. For example, from unmanaged sources: ocean fishing and deforestation are not considered agricultural activities;

*Change assessment.* A change in quality (e.g., genetics, density, maturity, fat content, protein content, and fiber strength) or quantity resulting from biological transformation (seed, weight, cubic meter, fiber length or diameter, and number of buds) or yield is evaluated as a regular management function and is further supervised.

Biological transformation results in the cultivation of an agricultural crop, such as latex, tea leaf, wool fabric, or milk. This happens by animals as it follows:



**Figure 3. Results of biological transformation.**

One of the most essential issues raised in the standard is the assessment of biological assets or agricultural yields. Economic entities admit biological assets and recognize agricultural products as assets in the following cases:

*first*, if the asset can be controlled as a result of past events;

*second*, if there is a possibility that a future flow of economic benefits associated with the asset will occur;

*third*, the fair value or cost of the asset is measured on the reliable basis.

**Example:** the first criterion for recognition is the control over the asset, which is reflected in the entity's ownership of the cattle and in the acquisition, birth or weaning of the cattle by marking the cattle.

The biological asset is measured at fair value minus the costs to sell at initial recognition and at the end of each reporting period. In addition, agricultural yields collected from biological assets are measured at fair value minus the costs to sell at the point of harvest (according to the IAS 2 "Inventories" it is considered as prime-cost).

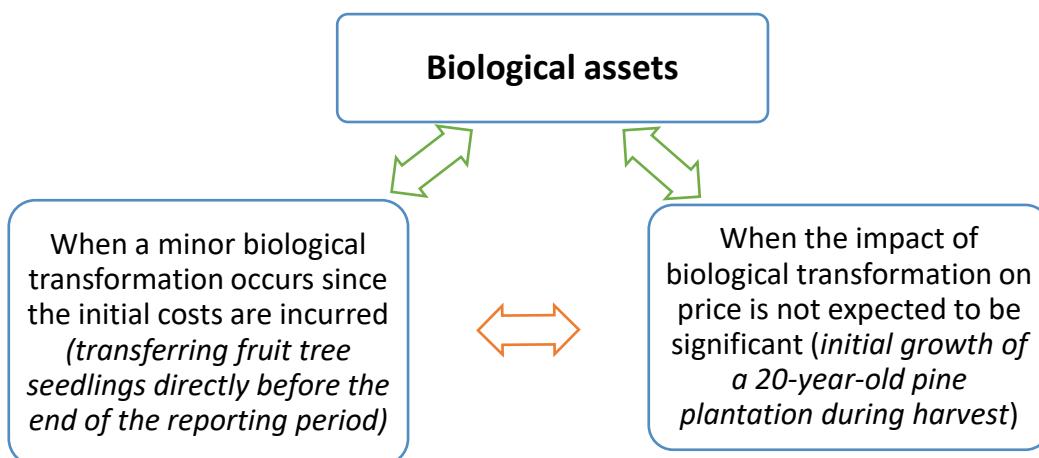
In determining the fair value of biological assets or agricultural yields by agricultural entities, they are grouped according to age or quality.

**Example:** the balance (book) values of biological assets intended for consumption and yielding are disclosed by group. Thus, it can divide their balance value into tangible and intangible assets. These differences provide the information needed to estimate future cash flows.

It is well-known that in most cases, agricultural entities enter into contracts for the sale of biological assets and agricultural products for the future period. In this case, the contract price is not required to be reasonable in determining fair value, because fair value reflects the current market conditions under which transactions can be made by the buyer and seller. As a result, the fair value of a biological asset and agricultural crop cannot be adjusted due to the existence of a contract. In some cases, a contract for the sale of a biological asset or agricultural product is made in accordance with IAS 37 "Reserves, Contingent Liabilities and Contingent Assets" (referred to as a burden-bearing contract).

Another important aspect of the standard is that when an agricultural entity applies this standard, it does not take into account the cash flow (income and expenses) for financing, taxation or recovery of biological assets after harvest collection. For example, the cost of replanting apple trees in orchards after harvest (by cutting down old trees).

Biological assets are usually attached to the ground (physically) (e.g., trees in plantations). There may not be a separate market for biological assets attached to the land plot, but there will be an active market for total assets, i.e., biological assets, uncultivated land and land reclamation. An agricultural entity uses information about total assets to determine the fair value of biological assets. In this case, the fair value of biological assets is determined by deducting the fair value of uncultivated land and land reclamation from the fair value of total assets.



**Figure 4. Prime-cost of biological assets.**

Determining financial results in agriculture is a crucially important factor. In reliance upon the principle of reciprocity of income and expenses:

*first*, when performing preliminary recognition of the selling expenses of biological assets in the fair value, as well as if there occurs profit or loss resulting in the change of the fair value as a result of deducting selling expenses, it is required to be included in the profit or loss of the current period. An initial recognition of a biological asset may result in a loss because the cost of selling is deductible in determining the fair value of the biological asset less its selling expenses. Another peculiarity of such a calculation is that a benefit may arise in the initial recognition of a biological asset, for example, a benefit is admitted when a calf is born from a purchased cow.

*second*, profit or loss resulting from initial recognition at fair value less costs to sell agricultural produce are included in profit or loss for the period in which they have been incurred. In this case, the gain or loss on the initial recognition of the agricultural crop may arise due to their harvest collection.

Moreover, it is important to pay attention to the following when disclosing full information about biological assets. That is, here biological assets are classified as mature biological assets or undeveloped biological assets. Herewith, determined biological assets are perceived to be assets that have achieved recoverable properties (for biological assets for consumption) or that can produce a regular yield (for productive biological assets).

Consumer biological assets are assets that are harvested as agricultural products or sold as biological assets.

**Example:** It can be cattle for breeding, cattle for sale, fish in fisheries, cereals such as corn or wheat, timber, etc.

The biological assets that produce them are biological assets other than the biological assets that are intended for consumption.

**Example:** It can be cattle for dairy purposes, grapevines, fruit trees. Yielding biological assets are not agricultural products but self-regenerating assets.

The agricultural entity provides a comparison of changes in the book value of biological assets at the beginning and end of the current period, including:

profit or loss resulting from a change in fair value minus selling expenses;

increases due to purchases;

reductions due to biological assets for sale;

reductions at the expense of harvest collection;

increases resulting from business combinations;

net exchange rate differences resulting from the conversion of financial statements into another available currency.

Another distinctive feature of agriculture is that activities in this sector are usually exposed to climate, disease and other natural risks. In case if an event that causes an occurrence of an important item of income or expense related to agriculture (dangerous disease, flood, severe drought, severe cold, insect attack, etc.) IAS № 1 "Submission of financial statements" applies.

It should be noted that it is not possible to directly apply the rules of IAS № 5 "Agriculture" in the practice of the republic. To achieve this aim it is required to develop a modified standard based on this standard.

**Table 3**  
**Interrelation of national standards in the development of a modified standard for the agricultural sector**

International Financial and Reporting Standard	National Accounting Standard
	<i>National Accounting Standard № 2 "Inventories"</i> (10-§. Peculiarities of accounting of animals in breeding and raising)
International Accounting Standard № 41 "Agriculture"	<i>National Accounting Standard № 5 "Fixed assets</i> (6-§. Depreciation calculation, item 35 b) productive livestock)
Biological assets and agricultural yield	<i>National Accounting Standard № 21 "Guidelines for the planning and application of accounting records of financial and economic activities of economic entities".</i> (item 19 - Working animals used as labor, such as horses, oxen, camels, mules and donkeys and other working animals (as well as animals used as a means of transportation) and products (breeding, milk, wool, etc.), such as cows, ewes, sheep, goats, etc. are accounted in the "Working and productive animals" account. Item 20 - Landscaping, decoration, fruit and berry trees and plants, green walls, etc. are accounted in the "Perennials" account. Item 24. "Perennials depreciation", "Working animals depreciation", 2-§. Accounts for breeding and raising animals).

The data in this table shows that the country has the opportunity to use the rules of national standards in the development of internationally modified standards for the agricultural sector. It is advisable to use international experience, in particular, the experience of Japan, in the development of a modified international standard. The reason for this is that in reliance upon Japanese generally accepted accounting principles Japan has developed JMIS –Japan's Modified International Standards. This will result in the increase in the number of companies listed internationally in various fields, as well as the growth of the national economy.

In addition, we also believe that it is time for Uzbekistan to create a national standard based on the International Financial Reporting Standard № 41, entitled "Agriculture". For this aim, it is necessary to choose one of the following ways:

first, development and application of a modified standard for the agricultural sector based on foreign experience;

second, creation of a new national standard or the direct adoption of an international standard on the basis of the current IFRS № 41 "Agriculture". The reason is that our republic does not have a national standard for agriculture, and if it existed, it could be adjusted in compliance with the international standards.

### **Conclusion**

Based on the study and analysis of the rules set out in IFRS № 41 "Agriculture", which is currently the only one related to the agricultural sector in the International Financial Reporting Standards, the following conclusions and recommendations have been developed:

first, in reliance upon international experience, it is recommended to establish a system of modification (Modified International Standards) in our country on the basis of International Financial Reporting Standards Board (IASB).

second, on the basis of the modified system for agricultural subjects of the republic on the basis of IFRS № 41 "Agriculture" it is planned to develop the "Agrarian sector account" or similar modified standard. This enables to apply this standard in entities directly involved in agricultural activities.

third, introduction of the modified standard created on the basis of international standards will be an important step in the international listing (registration on stock exchanges) for agricultural entities engaged in export and import operations in foreign trade.

In conclusion it should be noted, the introduction of international financial reporting standards for agricultural entities, in turn, results in the international recognition of their accounting and reporting systems. As a result, currently practicing accountants in every agricultural sector are aware of the importance of IFRS № 41 "Agriculture" standard for the agricultural sector of Uzbekistan. If we implement these measures successfully, we have no doubt that the accounting system in our country will be one step closer to international standards.

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