

## Closure Accounting of the Agricultural Financial Year

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**Abstract.** Realizing financial statements with all their synthesis documents is a complex data aggregation process in order to build economical-financial indicators regarding the financial position and the performance obtained.

**Keywords:** agriculture, accounting, assets, liabilities, financial year

### INTRODUCTION

Running the closure process of the financial year results in a series of papers, some of preliminary nature, while others affect directly the drafting or proper completion of the balance.

### MATERIALS AND METHODS

In order to centralize and control the accuracy of the data recorded in the accounts, the balance sheet is being realized before inventorying the assets and the liabilities.

Baseline inventory is actually represented by the final balance calculated in the balance sheet. Therefore, we can say that the balance sheet can be interpreted as an accounting inventory. According to the accounting regulations, for annual financial statements, entities must inventory and evaluate assets, liabilities and equity.

In agricultural entities inventory is performed usually at the closing of the financial year, but given that agricultural entities have specific and complex activities, goods are also being inventoried during the financial year (e.g. forestry) but it ensures including the inventory results in the annual financial statements prepared for that specific financial year.

Assets belonging to agricultural entities are assets that bring benefits to them and may be held for more than one year. They must be valued at acquisition cost or production cost less the value adjustments calculated to amortize the value of assets systematically over their period of economic use. This would require disconnecting accounting from tax.

Intangible assets are recognized in the balance sheet at their net value which represents the booking value reduced by the corresponding cumulative depreciated value. According to the IVth Directive - an intangible asset is presented in the balance sheet at the input value minus any accumulated value adjustments.

### RESULTS AND DISCUSSION

Inventory operations particularities of patrimonial elements of agricultural entities within specific activities:

### **Growth and valuing the prey (Pheasants)**

Inventory flock of pheasants is held during October 15 to November 15 of each year because immediately after this period they are being exported or valued internally while if sitting in cages waiting for storage, their plumage is degraded, they lose weight and an increase in the percentage loss is taking place. The inventory operation is done by counting them piece by piece, as follows:

- a. for breeders according to sex (male and female), according to storage lofts and according to separate inventory lists;
- b. for pheasants already at maturity over 120 days from this year's production according to sex, according to storage lofts and according to separate inventory lists.

Inventory results are being established by comparing data noted and recorded in the inventory listing with the technical-operational records (register of pheasants) and from the off-accounting records, taking into account the maximum loss allowed in the regulations issued by the National Forest Direction "Romsilva" for which separate records are being taken.

By comparing all the evidences mentioned with the factual ones, differences are being set (plus or minus). If minus differences are being recorded after a detailed analysis the guilty person is being held responsible and the manager of the forestry entity will ensure their imputation at replacement value (market).

According to point 38 of the Regulations for organization and inventory of assets and liabilities "evaluation of fixed assets and stocks at inventory, is the present value of each element, called inventory value, determined in accordance with the good's utility, its state and its market price". Unfortunately this is not respected, not only in agriculture but by almost all economic entities. This does not reflect the true and credible image of the annual financial statements; the values in the balance sheet are being distorted. In order to achieve this at every general inventory of assets and liabilities a commission should be appointed in order to determine the current value (market) of the patrimony elements among which the authorized evaluator should not be excluded. We believe that the managers of these entities should give a particular importance to the inventory operations in order for the value of the entity he manages to be indeed real.

Lands, including woodlands and forest roads are not depreciable assets; they are reflected in accounting at booking value. Investments made for land lakes, ponds for fish, recreational land are being recovered via depreciation, by including in exploitation expenses over a period determined by the entities administrators. Agricultural entities may re-evaluate existing tangible assets at the end of the financial year; by reflecting their results in accounting and presenting in the notes the method used.

According to O.M.F.P. nr.3055/2009, the stocks' cost comprises all acquisition and processing costs, as well as those incurred in order to bring the stocks in the shape and place to be found.

Production in progress is being determined by inventorying the unfinished production and by taking into account the inventory and evaluation periods; it is being determined at the actual production cost (ex. livestock, annual crops, nurseries, trout, etc.).

Particularities posed by the production process in agriculture, organization modules of the record system regarding the consumption of resources have left a mark on agricultural production cost calculation.

A main problem concerns the timing when the cost calculation can take place.

Mismatch between the timing when the production costs accrue and the production period varies according to the profile of the branches as well as the activities in these agriculture branches.

As stated by I. Băviță, this situation is quite visible in the plant production branch, branch influencing also the animal production industry, due to the fact that it provides the necessary fodder for the growth and maintenance of animals. In zootechnics this discrepancy is differentiated according to animal species and categories. For example, with mature animals this discrepancy is more pronounced than in the categories of young or fattening animals, for example milk cows where synchronization between expenditure and production is achieved.

During the year the assets cost calculated on farms and biological sectors is not a definitive cost, because in the cost of the calculation objects for consumption products within their own production or the benefits from auxiliary sectors may be determined at the level of pre-settled costs, in order to reflect a correct image at the end of the year when making the final calculation of agricultural production costs it is necessary that these domestic consumptions are set effectively.

At each balance sheet date of these entities, the monetary items denominated in foreign currency are reported at the closing rate, favorable or unfavorable differences, where appropriate, are recorded in financial income or expense. Current liabilities payable within 12 months after balance sheet date are represented by suppliers, suppliers of assets, amounts owed to forestry subunits, personnel debt, social security debt and the consolidated state budget, tax and other debts and are reflected in the balance sheet at their nominal value.

In determining the costs for various categories of assets there are features (Băviță, 2008) such as:

1. Greenhouse crops grown in two production cycles: first cycle in the first half of the year and second cycle in the second half. This calls for delimitation of production costs for unfinished production and products obtained, on production cycles.

2. Perennial and annual forage crops show some particularities regarding the delimitation of production costs for the establishment of perennial crops that are distributed throughout the entire culture period (2-3 years) by highlighting the production in progress.

3. For sheep growing the characteristics are determined by the heterogeneity of the products: wool, milk, lamb, garbage. The first ones are main products, while the last is a secondary product. Products are being planned and followed in registers by categories (adult sheep, young sheep, etc.) from each sheep category two or more kind of products are being obtained.

For example when determining the wool cost, from the total cost the value on domestic price settlement or the net realizable amount, of the other products obtained simultaneously, must be subtracted: milk, lambs weaned, young sheep, from the previous year, skins and manure. Therefore there are many key products without a cost calculation process which influence negatively the cost of the main product, for which a calculation methodology is pursued.

Poultry production has a particularity in the fact that for egg production cost is calculated for both eggs breeding (incubators), as well as for eggs to be supplied, we have two versions:

- The influence of differences between the cost of registration and the recovery cost of reformed adult birds;
- No influence regarding those differences.

4. Bee production particularity consists in harvesting from a colony of bees the following: honey, clusters, wax and pollen.

5. The cattle species divides in several categories from which the most important consists of cows for milk and breeding. From this category two main products are being obtained: milk and calves and a secondary-product, manure. In the event that milk is considered the only main product, cost calculation is performed by method of remaining value, calves and manure are being produced without calculation.

6. For young animals that are not being weight, like some animals of superior species: horses, sheep, etc.). a cost per animal is being calculated by reporting costs (less the secondary production) to the average food environment (number of heads) .

The issues raised by the impossibility of a calculation appear to be resolved by the accounting treatment of IAS 41 according to which the biological assets and agricultural products of an entity should be evaluated at their fair value less costs of sale.

Long-term debts are considered when the original term was for more than 12 months and an agreement for rescheduling or refinancing of payments is completed before the balance sheet date. When the reimbursement amount is higher than the received amount the difference is being recorded in the active part of the balance sheet and must be presented in the notes to financial statements.

Another separate element presented as a correction in the balance are the value adjustments, and the provisions which may not exceed in value the necessary amounts required for the extinction of the current obligation at balance sheet date. The amount recognized as a provision at the balance sheet date should be the best estimated settlement of the required costs required for the extinction of current obligations.

Likewise provisions made in agriculture should be reviewed at each balance sheet date and adjusted in order to reflect the best current estimation. They are evaluated before determining income tax. Provisions that are most frequently made in these entities are: litigation, fines and penalties, claims, damages and other doubtful debts and other provisions.

Revenues registered in advance presented in the balance sheet are the subsidies to be transferred to revenues as the costs are being generated, while for forest entities the conservation and regeneration and economic value of forests with protective functions (recreational function) funds.

## CONCLUSIONS

Accounting and evaluation treatments used in the management of agricultural entities can influence the quality of the entity's profit (the profit and loss account) because different methods lead to different results. There are two aspects of choosing the accounting method that affects the quality of earnings.

► First certain accounting methods are by nature more conservative than others because they tend to generate lower net income in the current year.

► Second the choice of methods exists, especially those concerning the allocation of depreciation of assets. Therefore we believe that between the two aspects alternative methods can be used and accepted based on some assumptions like:

a. in order to estimate the cost of uncertain claims: the percentage method of net sales and the seniority method for claims;

b. for stock evaluation: the method FIFO, LIFO and weighted average cost;

c. in order to express depreciation: straight-line method, degressive, accelerated depreciation method;

d. in order to express the depreciation of intangible assets: straight-line method.

All these methods are used to allocate the assets' cost charges for the year, these costs contribute to the production of income. Therefore, we consider it is important that both users and financial accounting to understand the possible effects of different accounting methods on net income and financial position of the entity.

Good information requires management to explain the most significant accounting policies used for preparing financial statements and the permanence of methods requires from one year to another to use the same accounting method. If the method changes it must be justified and explained in the notes.

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