

PROBLEMS OF RECORDING BIOLOGICAL ASSETS AND LEGISLATION SHORTCOMINGS IN LATVIA, POSSIBLE SOLUTIONS

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Abstract. *One of the 20th century politicians has said that the basis of the security and development of the country are accounting, supervision and electrification. From my point of view, this is applicable also in nowadays, although I'd like to add agriculture to this list.*

Why? In the modern world we simultaneously experience a rapid population growth and a decreased chance of survival. Wars, terrorism, unknown diseases, but most importantly – shortage of food. Furthermore, for example, in the European Union there is a quota system for agriculture and foodstuffs production. The United States of America supports the production of GMO or genetically modified organisms. Here we have to ask: Could it be that the food shortage is caused by completely different reasons?

The world highly values MONEY and the stabilization of the bank system. But humans cannot live on pieces of paper or metal coins. Our bodies are of a different kind. We need to have food that is healthy, rich in vitamins and wholesome.

Apparently, we have forgotten about the effective production and markets of such products. Today, people are ready to pay more for healthy and safe food. I think, agriculture in the time to come will have a stronger position in industry competition than it does today. That is why I'd like to turn back to the first paragraph of my speech – to the accounting and control. It may sound weird – agriculture and accounting – but it must be stressed that erroneous accounting causes problems, which in many cases result in the bankruptcy of agricultural enterprises.

In June 26, 2013, The European Parliament and The Council passed the directive 2013/34/EU 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 the Council Directives 78/660/EEC and 83/349/EEC. The main goal of this directive is to reduce administrative burdens and improve the business environment. The directive's underlying principle is to "think small first". That is – to prioritize small and medium-sized enterprises.

In order to implement this directive in Latvia, the Minister of Finance in November 27, 2013, issued an order to form a work group. This group consisted of representatives from the Ministry of Finance, the State Revenue Service, members of the Association of Accountants, the Association of Outsourced Accountancy Service Providers, as well as representatives from Employer's Confederation, and Latvian Chamber of Commerce and Industry. It is evident that the work group represented the interests of all concerned parties.

Now, the work group has completed its task, and the draft law has been received by the Budget and Finance Committee for submitting it to the Parliament for first reading. Of course, the law contains many changes concerning preparation of annual financial statements, the responsibility of accountants and management. Unfortunately, the law doesn't say anything about biological assets and their evaluation.

The only mention can be found in the Terminology section: "Biological assets are animals or plants, which the company holds in order to acquire agricultural products to sell or additional biological assets. Agriculture within the meaning of this Law is also forestry, fisheries and another such basic activity, which includes the administration of animal or plant biological conversion – its growing, degeneration, production and reproduction processes."

Sadly, there is nothing more in the normative acts than the definition of biological assets and poor explanations concerning their evaluation and fair value.

Since most of the Latvian companies don't have to comply with the International Accounting Standards, then quite often businesses face the difficulty of choosing how to correctly keep accounting records in regard to biological assets and their correct evaluation.

From my point of view, in case of Latvia, we can say that in our country there are no traditions of clear and transparent accounting of biological assets. Therefore, the farmers have problems establishing a sufficient level of trust and, consequently, attracting investors. But it is important to mention that exactly these factors are what constitutes a quality management of modern farming.

The negative consequence of the lack of guidelines and criteria for evaluating biological assets in Latvia is chaotic and incomparable information about biological assets in annual reports.

Of course, the International Accounting Standard number 41 “Agriculture” can serve as a guideline. The application of this standard provides the possibility to evaluate biological assets, using equal criteria and determining fair values.

The abovementioned standard is applicable in cases when the agricultural activity is linked with

- *Biological assets;*
- *Agriculture produce at the point of harvest; and*
- *Government grants under certain conditions;*

The standard states that “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.”

The Annual Accounts Law, Section 55.⁵ allows the evaluation of biological assets in their fair value. In order to be able to do it, one of the following parameters has to be abided by:

- *the biological asset objects have active market and permanently available market prices;*
- *it is possible for the biological asset objects with other recognised methods to specify the fair value at the current location and condition thereof.*

However, we have to take into account that there is no active market for the most part of biological assets and also there is no information about the market value of such assets. It is one of the key reasons, why the application of the fair value principle in evaluating biological assets is rather complicated.

Hence, because of the reasons mentioned above, biological assets are, in most cases, accounted in accordance with Section 26 of the Annual Accounts Law, that is, evaluated in accordance with cost of their acquisition or actual cost of production, and gradually written off.

However, by not addressing the question of determining the fair value of biological assets, we end up in a situation where the value of these assets is false, and we can't fairly evaluate the financial situation and viability of enterprise.

In current situation in Latvia we should develop a base of normative acts that would establish:

- *the possible methodology and criteria for evaluating biological assets;*
- *Suitable classification.*

If the normative acts of Latvia came closer to International Financial Reporting Standards, we could solve the problems in accounting of biological assets. Data would be comparable among different companies, and that would allow for consolidation of this information on state level. That, of course, also will result in more accurate statistics, so necessary when drafting the future development plans of the industry.

In conclusion, I want to stress once again, that, in regard to accounting of agricultural harvests and biological assets, Latvia has to develop a completely new regulatory system.

Key words: *biological assets, agriculture, normative acts, EU directive, evaluation.*