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## The accounting features of agricultural enterprises

**Abstract.** Agricultural production has a number of special features which essentially distinguish it from other sectors of national economy (industry, building industry, trade, etc.) The general regularities often prevail very specifically. The agricultural production is performed in open areas, exposed to the force of nature, closely connected to the land.

The land has a primary role in farming, and a major part of expenditures are utilised through arable land. The natural and economic attributes of arable land and the inseparably related climate conditions substantially determine the method and success of farming.

Farming specialties often require special accounting solutions which can also be found in the case of agricultural enterprises. The objective of the present paper is to examine the assessment procedures in regard to agricultural enterprises which can be applied in the case of fixed assets.

**Key words:** accounting policy, assessment procedure, fixed assets, breeding stock.

## Introduction

The ecological conditions of Hungary are rather favorable for agricultural production. The competitiveness of agricultural production and the integration into the member states of the European Union depends on many factors. Out of these factors, the available resources – including agro-ecological conditions – play an outstanding role. Some resources and factors of production affect farming activities independently of agricultural enterprises, while other factors can be influenced by the enterprises. Factors of production which are regarded as independent from enterprises include climate, topography and soil conditions, determining the possibilities of agricultural production within a given area. Factors of production which can be affected by enterprises are, for example, the capital, asset portfolio, size and composition of human resources.

The specialties of accounting treatment of agricultural production are determined by the features of agricultural production itself, which affect accounting treatment and recording, as well. [Miklósyné et al. 2006] Among the most typical, the following can be highlighted:

- The basic input of production in agriculture is the soil, the specific feature of which is that it cannot be relocated, it does not run out, it cannot be expanded without limits and its fertility can be improved by rational cultivation;
- The agricultural production processes are affected by natural conditions (climate, topography, soil quality). These are endowments which cannot be changed or radically transformed by man, at most these can be modified at some expense (for example: irrigation);

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- Agricultural production is a biological process, and production continues until this process is interrupted because production can be characterized by periodicity due to climate conditions and the periodic alternation of seasons. This requires special organizational work, first of all in plant production;
- A majority of produced goods are rapidly perishable which requires substantial transportation and processing capacities. [Internet-1]

One of the main tasks of accounting is to follow business activities precisely, because market actors need accessible, reliable and true information about the financial and revenue situation as well as changes in respect to enterprises. [Helgertné et al. 2003]

## **Specialties of accounting policy in agriculture in respect to tangible assets**

Accounting policy is the totality of methods and processes required for the practical implementation of accounting law. Accounting policy should provide the basis for the development of an accounting system which is the most appropriate regarding the features and conditions of the enterprise.

The accounting policy fulfils its function and meets the expectations raised if it is based on the basic principles and assessment standards laid down in accounting law, considering also the specialties of the given enterprise.

The elaboration of accounting policy is enabled and prescribed by the legal regulations concerning accounting. The law provides the possibility of decision-making to the entrepreneur (for example: in the field of sales, storage, definition of direct and indirect costs, implementation of value adjustment, etc.) and allows broad scope for the development and operation of management accounting.

By applying the basic framework of rules of accounting upon the elaboration of report, the business entity should form and write down the rules of methods and procedures which are the most suitable for its conditions and business processes and which are required for the practical implementation of accounting legislation. This should be fixed in the accounting policy. [Korom et. al. 2005] In Hungary, the § 14 of Law No. C of year 2000 lays down provisions about this. The accounting system formed and operated this way ensures the true economic content of information and supports decision-making based on real (actual) data.

The regulations which must be prepared in the frames of accounting policy are as follows:

- regulation of making inventory of assets and liabilities,
- assessment regulation of assets and liability,
- internal regulation concerning the order of direct cost calculation,
- money management regulation. [Helgertné et al. 2003]

Agricultural enterprises (also) need means of production. Part of these means serve the activities of the enterprise permanently, for at least more than one year. According to Article 23 of accounting law, these are registered among the fixed assets. The other part of assets, which support the business activities for less than one year (not permanently), are called current assets.

Among fixed assets the tangible assets are those which can be characterised by specialties resulting from agricultural production, therefore, hereinafter the rules of accounting of these types of assets are introduced.

## **Definition of tangible assets**

Tangible assets in general mean those material assets installed and accepted for intended use (land, property, developed land, forest, plantation, buildings, other structures, technical equipment, machines, vehicles, tools and equipment, other equipment, right to assets and licenses), breeding stock which serve permanently – directly or indirectly – the activities of the entrepreneur, and the advance payment for the purchase of these assets (investments) and the investment as well as the value adjustment of fixed assets. [Internet-1]

The following types of assets can be highlighted within the fixed assets of agricultural enterprises:

- properties and related rights to assets and licenses (land, developed land, plantation, etc.)
- breeding stock.

The land accepted for intended use and all the material assets established in permanent relation with land should be recorded among properties. The properties should include: agricultural land, building plot, developed land, buildings, parts of buildings, other structures, properties outside the sphere of operation or ownership share, as well as rights of a property value connected with land and building, apart from whether they were purchased or produced by the entrepreneur, or implemented in owned or rented property. Investment or reconstruction undertaken and activated in rented properties should also be recorded among properties.

Land is considered arable land when it is recorded in the land registry as plough land, vineyard, orchard, garden, meadow, pasture, reeds, forest, or fishpond.

The building plot is the outcome of an investment activity made in order to improve soil utilisation. As the result of this, the quality, surface and fertility of soil is modified. Building plots include the costs of landscaping, land filling and land protection but cannot include the value of land where the investment is made. [Miklósyné et al. 2006]

The crop culture planted for several years of regular production, in close connection with arable land is regarded as plantation. Vineyard, fruits, hop and asparagus culture, as well as poplar and willow plants can be listed here. The perennial crops do not belong to plantations (e.g. alfalfa, grassland). The plantations can be recorded among tangible assets only after they bear fruit. [Helgertné et al. 2003]

The permanent rights connected with properties should be recorded among land and buildings and rights to immovable, regardless of whether the property is owned by the enterprise or not. These are, for example: land use, life tenancy and use, rental right, easement.

According to Article 26 (6) of the accounting law, those animals which produce separable product (offspring or other separable animal product) in the course of breeding or farming should be recorded among breeding stock and the rearing costs are returned from the sales of these products. The agricultural enterprises usually keep breeding stock

with the purpose of procreation. The major breeding stocks are cows, bulls, rams, etc. Cows are also kept for milk while sheep provide wool.

Breeding stock also include those, the other utilization of which (draft performance, watching tasks, riding) ensures the return of husbandry costs regardless of how long they serve the enterprising activity. Such are, for example: draft horses, mules, oxen, the task of which is providing a draft force. Breeding stock should be recorded here even if the useful life (in case of livestock it is called breeding time) is shorter than one year.

Those enterprises which also deal with livestock should address in their accounting policy those animal species for which the utilisation line of rearing is different from the legal regulations. For example, sports horses used for racing or riding should be recorded among breeding stock, while sports horses kept for sale should be included among current assets (e.g. the breeding stock put to fattening is included among fattening livestock, the animals purchased for sale are listed among products).

### **Assessment of tangible assets (historical cost, amortisation, accelerated depreciation, value adjusted)**

Cost of tangible assets is determined by the way they were procured by the enterprise, thus, accordingly, it can be:

- cost of production, or
- purchase price.

The cost of tangible assets is realised in the interest of purchasing, producing, installing the asset until implementing or delivering it to the warehouse, in other words it is the total sum of items which can be connected individually to the asset. [Miklósyné et al. 2006]

The cost is composed of the following elements connected directly with the purchase of the given asset:

- duty (on gifts, inheritance, purchase or exchange transaction),
- interest rate for the credit or loan used for the period until the tangible asset is installed or delivered to the warehouse,
- exchange rate difference of foreign currency liabilities calculated for the period until the installation.

The following elements are not part of cost on the basis of §47 (3):

- deductible value added tax calculated preliminary,
- according to the law on value-added tax, the proportion non-deductible from the preliminary calculated value added tax shared in ratio of payment.
- the amount of support received definitively in connection with the investment does not reduce the cost of asset.

According to §47 (5), when the building plot (land) and the building or structure on the plot is purchased at the same time and the building or the structure is not taken into use as intended (the building or structure cannot be utilised as intended), then the purchasing and demolition costs of the building or structure and the costs of works made in order to develop the purchased plot for construction should be accounted as purchase costs which increase the value of the plot (land) up to the amount corresponding to the market value of

the plot (land) after the demolition (empty plot). The costs or expenditures above this amount should be considered as the cost of investment (building or structure) realised.

In the case of tangible assets, the fees of work connected with the expansion, function change, makeover, increasing life span of already existing tangible asset, as well as the fees of renovation work serving the reconstruction of the original state (capacity, precision) of the tangible asset worn out should be accounted as cost which increases value.

On the basis of accounting law, Article 48 (2), the price of maintenance or repair work made in order to ensure permanent, uninterrupted or safe operation as well as the price of forest growing, forest maintenance and forest renewal work cannot be considered as cost of tangible assets.

One specific investment activity of agriculture is plantation growing, which needs several years. The treatment and planting costs of vineyard and orchard culture as well as hop plantations belong to this category. The performance value accounted until the plantation gives yield should be recorded among investments. The records are activated when the plantation bears fruit. The value of yield until the plantation bears fruit should be accounted as a cost reducing item – that is, it reduces the cost of plantation.

In the case of breeding stock, the given fixed asset is moved from the investment account into the breeding stock at cost. The cost of breeding stock is the same as the actual purchase price.

Amortization can be accounted in the case of tangible assets for those years when the asset will probably be used that are during the useful lifespan. The value realized at the end of the useful lifespan is the remaining balance which is the future market price of the given, worn out tangible asset. The market value, of course, is only an estimated value, which can be determined by a method laid down in law on corporate income tax and dividend tax.

In the case of breeding stock, the useful lifespan means the duration of breeding period corresponding to the breeding technology, therefore the useful lifespan in case of livestock can be very different according to the species.

The amount of cost reduced by the remaining balance can be accounted as amortization on the basis of different methods (linear, degressive, performance-proportional and progressive description).

Due to the nature of breeding stock, the linear and performance-related description can be used in practice. There is a performance-related description in the case of cows on the basis of the quantity of milk produced.

According to the law No. C of year 2000, Article 50 (5), planned amortization cannot be accounted in the case of cost of land, plot or forest (...) as well as in the case of investments which are not installed.

Planned amortization can be accounted in the case of tangible assets which are taken into use or installed as intended as long as they are used as intended.

As regards tangible assets, extraordinary depreciation should be accounted in the following two cases:

- if the accounted value is permanently and significantly higher than the market value of a tangible asset (except for investments),
- if the value of a tangible asset permanently declines, because it becomes unnecessary, goes wrong, is destroyed or cannot be used properly, or is unusable.

If due to the extraordinary depreciation records, the recorded value of tangible assets is lower than the original cost of these assets, and the reasons of extraordinary depreciation do

not but partly exist, the extraordinary depreciation records should be eliminated by reducing the already settled extraordinary depreciation. [Szakács 2009]

Accelerated depreciation can be accounted in the case of breeding stock, if emergency slaughter is made or animal death occurs. Since in these cases the livestock usually cannot be utilized, the remaining balance should be accounted as cost together with the accelerated depreciation.

Value adjustment can be accounted for tangible assets in the balance sheet if the balance sheet value of the given asset, after reversing the extraordinary depreciation, is significantly lower than the market value.

## **Results, conclusions**

Due to the composition of assets in the agricultural sector, one of the main factors is the appropriate application of accounting connected with fixed assets. Agricultural enterprises have substantial tangible asset stock and their accounting includes some special cases. The precisely kept accounting books have great significance because the business entity must keep permanent records about the business events affecting its financial or income situation during its activities. In Hungary, the accounting law gives priority to the reporting requirements, that is to the reliable, real and true picture about the activities of the given enterprise, therefore the principles and assessment rules as laid down in legal regulations must be observed in preparing reports and book-keeping. If the accounting work is made while considering this, the principles are applied and the requirements imposed on the accounting information system, then is the reliability and authenticity of information better guaranteed.

The application of evaluation processes considerably determines the output of the company, thus the degree of growth. The actual content of data that is recorded and the information from the data contribute to the evaluation of economic processes, and thus to the development of business activities. Economic events are recorded according to the principles and evaluation methods laid down by the accounting law, thus these events are included in the data set of the accounting system (both financial and management accounting) and the data of decision-making information is a reflection totally corresponding to the processes which take place in reality.

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