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Challenges of agricultural entities in financial reporting: Case of Albania

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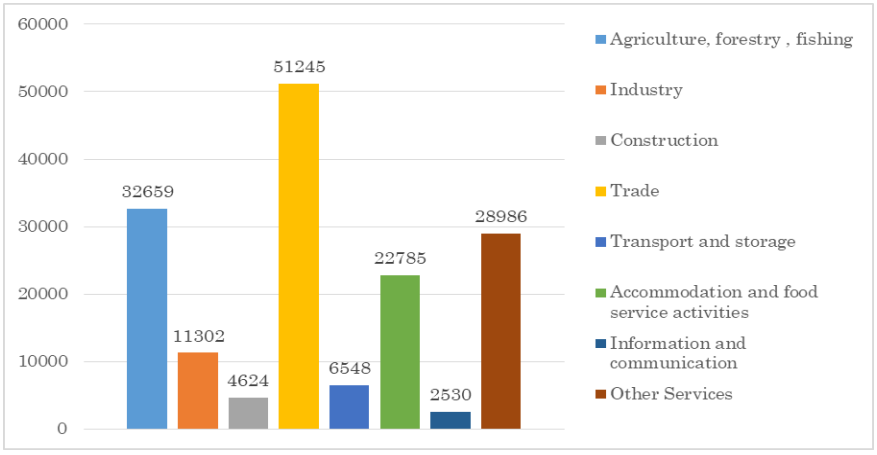
Abstract— *Agriculture sector remains an engine of Albania's economic growth, statistical data indicates that agriculture accounts for as much as 20% of GDP or in employment about 50% of the active power. According to data published from INSTAT in 2016 the number of registered economic units was 321,358, where 10% were engaged in the agricultural sector or about 1,287 entities operating as natural person or legal person and 31,372 farmers who have an agricultural activity. For the purpose of financial reporting, all entities registered in tax authorities, should use the improved accounting standard number 13 for the recognition and evaluation of biological assets. The implementation of this standard is important by making comparable accounting information on biological assets offered by these companies which exercise economic activity in the field of biological assets. But when we consider accounting procedure problems, it is noticed that exits a small amount of information about the rules, techniques, and list of accounts that guide us to a correct and believable view. We have come to the conclusion that besides the other arguments this phenomena occurs beacause, agricultural accounting has not been developed as a course in any faculty in our country meanwhile the Faculty of Economics and Agribusiness has added to its curriculum during the last three years. For this reason, we have undertaken in this paper the challenge to find out which are the crucial problems faced by Albanian entities during financial reporting and some of the solutions that will help these units to provide the appropriate information for tax intention and for owners to take the right decisions so they can have a sustainable business. To come to the right conclusions we will conduct a review on the literature on the evolution of accounting in agriculture in Albania as well as in the world. Likewise, preliminary data will be provided through interviews with the makers of financial reports, which will be analyzed descriptively.*

I. INTRODUCTION

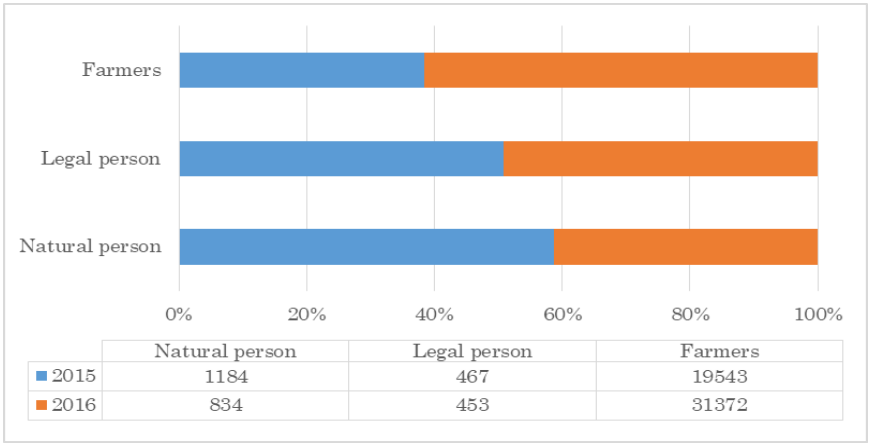
In our country, agriculture is considered as a very important sector of the economy, has employed 47.8% of the population and works only 24.31% of the agricultural land. However, it is noted that the growth rates of this sector are lower than those of the economic growth declared by the government. That is why, given the recent developments in the context of European integration challenges, agriculture is seen as an ever-increasing priority aimed at the production and marketing of healthy products. Small and medium-sized entities in the agricultural sector play an important role in reducing poverty and economic development in the country.



Graph 1. Active enterprises by economic activity

Source: Business Register INSTAT 2016.

Enterprises with 50 and more employed to producers of goods which are parts ”Agriculture, forestry and fshing, Industry, Construction”, are concentrated in manufactured activities. Enterprises with main activity “Trade” and “Accommodation and food service activities” dominate with 46.1% of total active enterprises. Albanian economy is focused mainly in trade activity as well as for new registrations. Enterprises registered during 2016 in trade activity are 21.6 % out of 35.3% during 2015. Approximately 91.0 % of enterprises are enterprises from one to four employed. The major part of them 74.8 % has only one employee out of 61.8 % in 2015.



Graph 2. The structure of agricultural units during 2015 and 2016

Source: INSTAT 2016.

According to the data published by INSTAT, for 2015, NIPT has 19,543 farmers or 38% while in 2016 the number of registrations has increased to 31,372 farmers or 62%. For 2015, the number of agricultural units registered as a natural person is 1184 or 59% whereas for 2016 we see a decrease in registrations going to 834 units or 41%. In 2015 and 2016 the number of entities with agricultural activity registered as a legal entity is respectively 467 units and 453 units. If in 2016 there are registered about 321,358 units of which 10% deal with agricultural activity or about

1,287 entities operating as a natural or legal person and 31,372 farmers who have an agricultural activity.

As in any other branch of the economy, the agricultural sector regularly reports its activity. In recent years, changes in the reporting field have affected the sector as well. The internal and external developments highlighted adaptation and harmonization, to gradually transition to the implementation of international accounting and financial reporting standards. The difficulties and costs to implement their full version made local standards to be drawn up and entities would report in a differentiated manner according to the definitions made in Law no. 9228, dated 29.04.2004 "On Accounting and Financial Statements", as amended by Law no. 9477, dated 09.02.2006, as well as in DCM no.742, dated 07.11.2007 "Criteria for the selection of entities that have to apply international accounting standards".

After its creation in 2004, the National Accounting Council drafted and published the National Accounting Standards, among which was KAS 13 for biological assets. This Standard was designed to be IAS 41-oriented. With the good intention of alleviating the burden of financial reporting and lowering the cost of accounting, it was determined that biological assets are measured only on a cost model basis. In July 2014, the MRS itself also changes, with effective effective January 1, 2015. Improved KAS 13 for the portion of biological assets allows their valuation with the fair value model, but without excluding the discounting method of fluctuations. For the purpose of financial reporting, all entities registered with the tax authorities should use the recognized accounting standard for the recognition and assessment of biological assets 13. The implementation of this standard is important by making comparable accounting information on biological assets provided by these companies that exercise economic activity in the field of biological assets. The main purpose of this paper is to highlight the problems encountered in the accounting practice of biological assets records in Albania.

II. LITERATURE REVIEW

"Price is what you pay, value is what you get." – *Warren Buffett*

One of the most challenging aspects relating to accounting for biological assets can arguably be the measurement thereof. IFRS for SMEs, Section 34 "Specialised Activities", paragraph 34.4, specifies the measurement of biological assets as follows:

"An entity shall measure a biological asset on initial recognition and at each reporting date at its fair value less cost to sell. Changes in fair value less costs to sell shall be recognised in profit or loss." (In limited circumstances, an entity would be allowed to depart from the requirement above, but this article will be limited to the discussion of the application of the fair value model.)

IFRS 13 was developed as a guide on the determination of fair values for the components of the financial statements (IASB,2013)

"Fair value is defined in IFRS 13 as the price that market participants on the measurement date would be paid to transfer a liability, or be received to sell an asset" (IASB, 2013).

Fair value measurement should take into account the highest and best use of an asset regardless of the actual use thereof (IASB,2013). To determine the highest and best use, market information is needed as the value of the asset should be maximised, even if the intention of the organisation is not to sell it in a market.

Definition and Objectives of Agricultural Accounting

Agricultural accounting can be explained as a specialty accounting which primarily records financial and monetary transactions throughout agricultural activities, classifies financial transaction in respect of types, estimates production costs incurred during the cultivation of agricultural goods and then reports those financial according to their purposes. The objectives of agricultural accounting can be listed as follows (Doğan, 1975; Aras,1988; Beneke, 1966; Talim, 1973).

- Estimation of actual costs pertaining to agricultural goods,
- Determination of sale prices of goods obtained from agricultural activities,
- Fair and well-balanced allocation of dividends among enterprise partners following profit-loss estimation,
- Assistance to farmers and enterprises in estimation of tax base,
- Monitoring intertemporal financial and physical aspects of agricultural enterprises,
- Monitoring the movements in quantity and value pertaining to agricultural goods,
- Performance of cost analysis, followed by rational precautionary measures,
- Assistance to agricultural enterprises in budget planning for the future,
- Assistance in education, training and research services, ect...

Accounting in Agriculture: valuation models for biological assets

IAS 41, the frst-ever international fnancial reporting standard on agricultural activity, represents the most comprehensive and far-reaching departure from historical cost accounting to date, provoking a broad range of theoretical and practical problems that might hamper its widespread adoption (Elad, 2004). Although historical cost is the most common valuation basis for biological assets, a variety of proxies for fair value are used, such as net present value, independent/external valuation, net realisable value, and market price, both within and across countries. As such, IAS 41 has failed to enhance the international comparability of accounting practices in the agricultural sector (Elad and Herbohn, 2011).

"Agriculture is not an appropriate type of business for introducing earlier recognition of proft, before it is recognized through sale of the product, in place of the present, more prudent, historical cost approach". (Institute of Chartered Accountants in England and Wales in IASC, 1998)

On one side, previous literature concerning the cultural and institutional impacts of the IAS 41 in accounting harmonization in agriculture (Elad and Herbohn, 2011) has revealed that Anglo -Saxon countries have a straight relationship with this standard and are receptive to fair value measurement. The information asymmetry, contractual efficiency and managerial opportunism are factors that also explain the adoption of fair value (Quagli and Avalone, 2010). Another international study concerning IAS 41 is developed by Elad (2004), which has provided a worldwide comparison between Europe, Africa and Australia. He has concludedthat fair value is more suitable than historical cost to those biological assets that have an active market, and more comprehensible to the users of the information.

III. METHODOLOGY

This study is designed and implemented in order to bring data and facts about how agricultural entities make financial statements and realize the recognition and valuation of biological assets.

The questionnaire consists of six sections, each with a different objective. The first section of the questionnaire aims to categorise the farm of the respondent concerned, while the second section seeks to establish the purpose for which financial statements are prepared. The main objective of the third section is to present a situation in which an active market exists and whether the farmers have confidence in market established prices. The fourth section treats the most popular basis of the valuation of biological assets and the way in which the valuation method may be influenced by the market factors. The fifth section purpose is to determine the challenges or limitations of the fair value determination while the sixth section establishes the significance of each challenge and, thus, forms the basis of the conclusions and recommendations. To achieve the goal of this paper, besides the primary data provided by the questionnaire prepared for the specialists of the main statements, are used secondary data taken from INSTAT as well as the publications of Albanian and foreign authors who have dealt with the problems of accounting procedure in agriculture.

Data analysis method

Mean

The arithmetic mean, more commonly known as "the average," is the sum of a list of numbers divided by the number of items on the list. The mean is useful in determining the overall trend of a data set or providing a rapid snapshot of your data. Another advantage of the mean is that it's very easy and quick to calculate.

Standard Deviation

The standard deviation, often represented with the Greek letter sigma, is the measure of a spread of data around the mean. A high standard deviation signifies that data is spread more widely from the mean, where a low standard deviation signals that more data align with the mean.

Pie Charts

A pie chart (or a circle chart) is a circular statistical graphic which is divided into slices to illustrate numerical proportion. (Wikipedia,Pie chart) Pie charts are generally considered to be the most illustrative method of presenting categorical data and it is for this reason that the researcher adopted this method for the purpose of this research.

Data collection and analysis

During this study, we have collected a considerable number of findings and data, which allowed us a limited empirical analysis according to the aims of this study, the number of interviewees is 20. All survey data was collected through face-to-face interviews with accounting experts and professionals related to the field of agriculture. The preparatory groundwork for the indentification of the persons to be interviewed was completed by the authors of this article. The preparation of this study went through several phases: the preparatory phase , the field research, the data entry, the data interpretation and analyses, and finally the written report. The main and the most alarming finding of this survey is related to the non-compliance of accounting standards with the method which agricultural

entities perform their activity. Secondly, this study has come to a conclusion : the majority of those who were interviewed point out that most of the units with an agricultural activity do not use bookkeeping.

Section 1 : Farm profile

Section 1 of the questionnaire focused on the profile of the farming activities. The objective of the section was to highlight the fact that farming activities are heterogeneous and may even be influenced by farming methods.

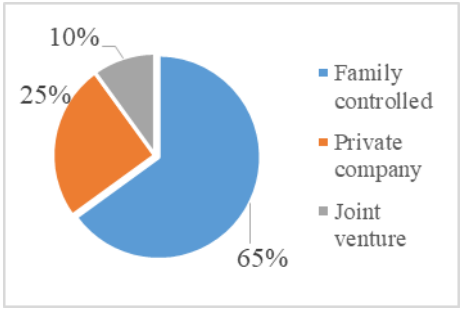


Fig.3 Organisation of farming activities

As per the analysis in figure 3, 65% of the respondents think that most of farmers in Albania are family controlled with 25% only being private company and 10% joint venture .

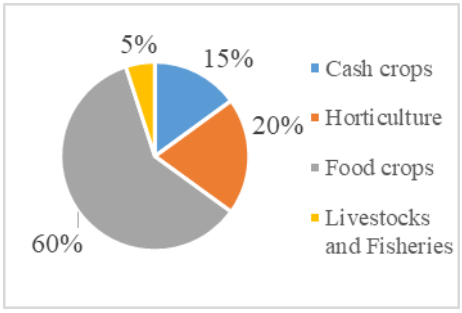


Fig.4 Nature of farming activities

As indicated in figure 4, the accounting experts agree that food crops sub-sector is important with 60% , 20% of the respondents for the horticultural sub-sector, 15% of the respondents for the cash crops sub-sector and only 5% of interviewed for livestock and fisheries.

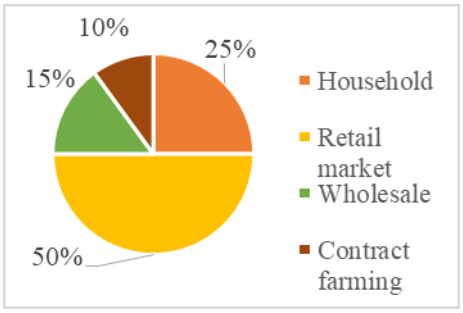


Fig.4 Target market

Question 3 aimed at establishing the target market which, to a large extent, influences fair value determination. As indicated in figure 4, 50% of respondents think that agricultural units are targeting retail market sales, 25% household consumption, 15% wholesale and 10% use contract farming. One of the problems in agricultural sector is not insurance of farms to insurance institutions, this makes the risk to be present even taking into account climate change.This, in turn, may, to a great extent, influence the valuation of biological assets.

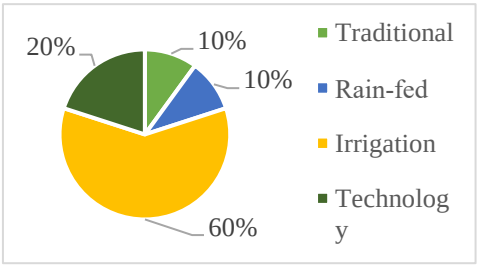


Fig.5 Farming methods

Figure 5 indicates that 10% of the respondents support natural climatic conditions and 27% thinks that irrigation is a good method. To improve productivity in agriculture many farmers have adopted biotechnology and others continued to use traditional method.

Section 2 : Objectives in preparing financial statements

The financial statements represent the single most important tool in respect of management's sharing of information with the various stakeholders of an entity. Question 1 aimed at establishing which components of the financial statements those drafting the financial statements accord the most significance. The respondents were required to rank from 1 (the most important) to 4 (the least important) and 5 for not sure. In order to analyse the findings it was necessary to code the components of financial statements and then to compute the statistical values using the Microsoft Excel 2013.

The results of the statistical analysis are presented in table 6 below with the coding having been done as follows:

- STCOMINC – Statement of comprehensive income;
- STFINPOS – Statement of financial position;
- STECAFLW – Statement of cash flows;
- STECEEQT – Statement of changes in equity; and
- NOTEXPLA – Notes and explanations to the financial statements

Table 6 Importance of the components of financial statements

	N	Min	Max	Mean	Std.Deviation
STCOMINC	20	1	2	1.45	.510
STFINPOS	20	1	4	2.15	1.268
STECAFLW	20	2	5	3.45	1.191
STECEEQT	20	1	5	3.45	.945
NOTEXPLA	20	3	5	4.4	.821

Source: Author(s) calculation.

The statistical analysis of the responses, which is presented in table 6, indicates that most of the respondents were in agreement that the statement of comprehensive income was the most significant for farmers with a highest mean score of 1.45 and a standard deviation of 0.510. Ranked second in importance was the statement of financial position with a mean score of 2.15, with the the statement of changes in equity in third position of importance with a mean score of 3.45. The statement of cash flows was considered as the least important while the respondents were unanimous in not being sure about the use of notes and explanations.

Question 2 aimed at establishing the main reasons why farmers prepare financial statements.

The statistical analysis of the responses indicated the result summarised in table 7 below where the coding was done as follows:

- LOANREQU – Loan requirements;
- SHAREHOL – Shareholders;
- TAXCOMPL – Tax compliance;
- DECISINF – Decision making information; and
- COMPSTAN – Compliance with accounting standards.

Table 7 Reasons for preparing financial statements

	N	Min	Max	Mean	Std.Deviation
LOANREQU	20	1	5	2.7	1.559
SHAREHOL	20	1	5	2.65	1.089
TAXCOMPL	20	1	4	2.5	1.235
DECISINF	20	1	4	3.1	1.334
COMPSTAN	20	2	5	3.85	1.309

Source: Author(s) calculation.

The statistical analysis of the responses, as summarised in table 7 , indicates that the majority of farmers prepare financial statements for tax compliance with a mean score of 2.5 and a standard deviation of 1.235. This date support the theoretical assertion that SMEs prepare financial statements for compliance purposes. Second by importance are shareholders with a mean score of 1.33 and a standard deviation of 0.832 and thirdly, the loan requirement with a mean score of 2.7 and a standard deviation of 1.559. The interviewers identified compliance with accounting standards and information for decision making as the least important, in this order. The third question sought to establish the most common basis of preparing financial statements. According to collected data ,70% of the respondents think that farmers prefer to prepare financial statements on a cash basis while 30% prefer on an accrual basis of accounting.

Section 3 : Access to market

In the valuation of biological assets, market determined prices are accorded the highest priority. Accordingly, it was considered necessary to evaluate the form in which farmers access the market. This section is focused on the farmers' knowledge of the existence and functioning of an active market.

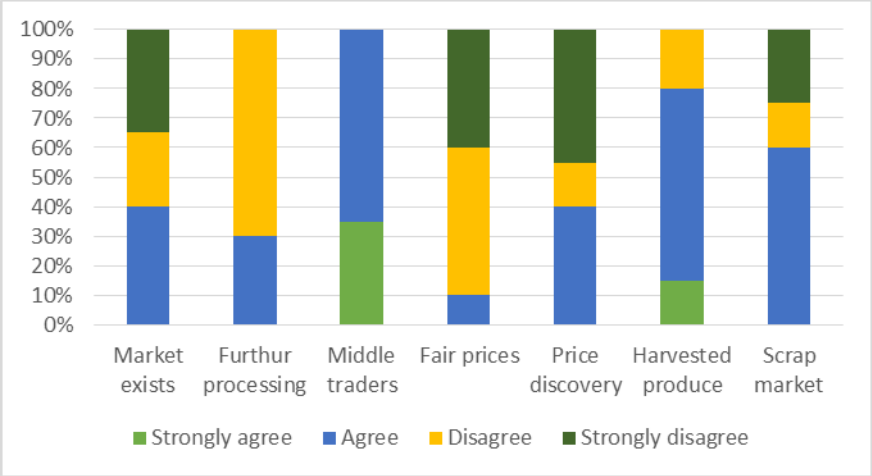


Fig.7 Summary of market accessibility

The results of the evaluation of market accessibility are summarised in figure 7. These results indicate that it may generally be argued that most farmers do not have access to market information. This is also a very clear indication that farmers do not play a role in the pricing of their produce in the market place. This, in turn, to a great extent, reduces the number of market players and erodes the reliability of market determined prices.

Section 4 : Valuation of biological assets

The main objective of this section was to establish a common basis for the valuation of biological assets.

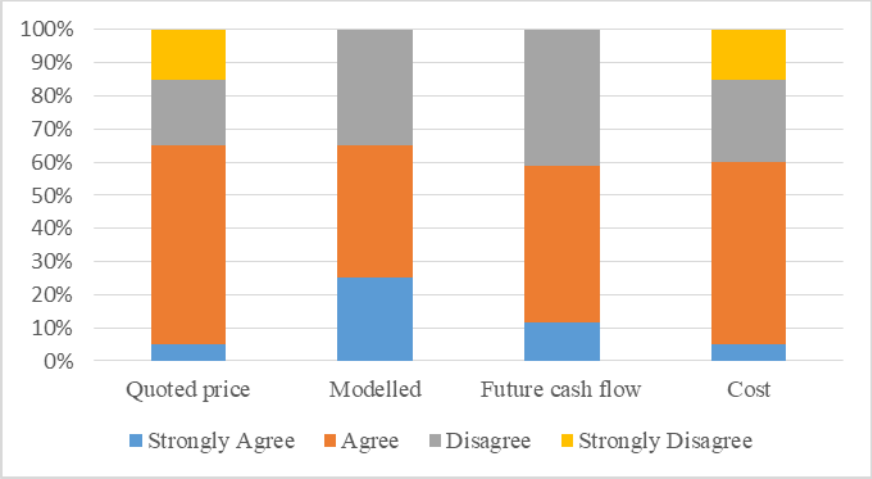


Fig.8 Summary of challenges of valuation of biological assets

As highlighted before quoted price is considered to be the most reliable basis for fair value determination. Evaluation of biological assets is one of the most important steps in the agricultural sector. The farmer make the evaluation using some accounting methods but in Albania are usually used the cost model and the fair value . To get some extra details in this section, we have addressed four questions for the specialists, from the answers received to the first question (referring to the quoted price in an active market), 60% agree and the rest disagree because we do not have stock market in Albania where this price can be determined.It should be noted that there are contemporary farms that their shares are quoted on the stock exchanges of neighboring countries. Regarding other questions, the main problem faced by domestic farmers is the non-compliance of the national accounting standard 13 with the way these farms perform their activity. Farmers not are clear for the application of standart therefore use the cost model for the valuation of biological asset.

Section 5 :Challenges in fair value estimations

The aim of this section was to establish the challenges in respect of fair value estimation. The results of section 5 are summarised in figure 8. The use of a fair value model by agricultural activity entities remains an issue that needs to be treated by specialists and not just

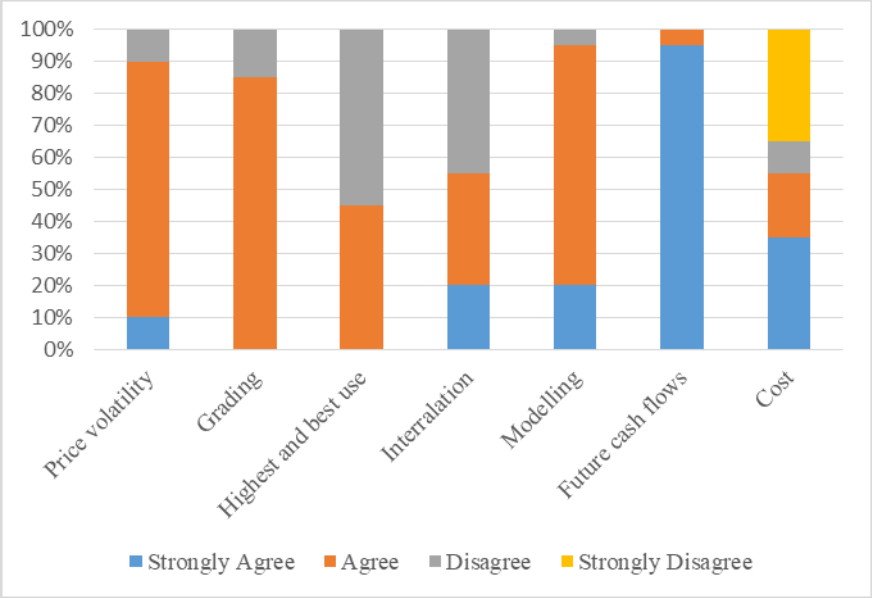


Fig.9 Summary of challenges of valuation of biological assets

According to figure 9, price volatility, highest and best use factors and future cash flows are considered to be most significant challenges in respect of the valuation of biological assets.

Section 6: Ranking of the challenges

The aim of this section was to establish the order in which respondents would rank the different factors in terms of these factors constituting a challenge in the determination of fair value. The respondents were required to rank the factors from 1 for the most challenging to 6 for the least challenging.

- PRINMARK – Principal market is inaccessible and establishing the highest and best use of biological assets is impractical;
- USERGRPS – The information requirement of the different user groups is dynamic and ever changing;
- COSTPREP – The cost of preparing and presenting financial statements on the basis of fair value is higher than it would be using any other basis;
- PREKNOWL – As a result of limited knowledge, we rely on consultants or external experts in the estimation of the value of biological assets;
- DIVERSIT – The diversity and interrelationships of agricultural activities impede the valuation of biological assets;
- CULTTRAD – The cultural and traditional practices of agricultural activities impede the valuation of biological assets (sentimental attachment or taboos).

Table 9 The challenges for the valuation of biological assets

	N	Min	Max	Mean	Std.Deviation
PRINMARK	20	1	3	2.1	.912
USERGRPS	20	1	5	2.35	1.309
COSTPREP	20	1	5	2.75	1.410
PREKNOWL	20	2	6	4	1.376
DIVERSIT	20	2	6	4.65	1.348
CULTTRAD	20	2	6	5.15	1.268

Source: Author(s) calculation.

According to the results, the accessibility of the principal market and the changing information needs in the valuation of biological assets are considered to be the most challenging. Ranked second is the impact of fair value on the cost of preparing and presenting financial statements, while ranked third is the knowledge of the drafter of the financial statements. Ranked in fourth position is the diversity of agricultural activities and cultural practices.

Case Study : farm analysis in Albania

"Besa Agro Invest" is an entity with status sh.pk, established in 2014 and based in Durres. This entity was registered at QKR in the same year when started the

activity in the agricultural sector "Cultivation of various agricultural crops and their wholesale and retail trading. Cultivation of olive, vineyards, fruit trees for the purpose of trading their wholesale and retail products and by-products. Seed and seedlings production and their trading ". For 2015, the financial statements have been prepared in accordance with national accounting standards. From the statement of financial position we can notice that the biological assets are presented separately from other items of the entity's assets and are valued with fair value.

Besa Agro Invest

Statement of financial position

31.12.2015

Farm Assets		**Liabilities and Owners' Equity**	
Cash	13,872,495	Current Assets	5,744,039
Accounts receivable	14,430,996	*Total liabilities*	*5,744,039*
Inventory	1,972,528		
Biological assets	1,763,147	Paid in capital	180,000,000
Delayed expenses	3,496,332	Retained earnings	(8,561,733)
Total Current Assets	35,535,498	Earnings	(9,525,141)
		Total capital	*161,913,125*
Other assets	113,393,703		
Biological assets	16,208,581		
Delayed tax assets	2,519,382		
Total Long-term assets	132,121,666		
Total Assets	**167,657,164**	**Total Liabilites and Owners' Equity**	**167,657,164**

Besa Agro Invest

Statement of comprehensive income

01.01.2015 - 31.12.2015

Revenues	3,658,281
Change in inventory	620,555
Work performed by the entity	17,863,808
Others incomes	24,000,000
Materials	(11,990,200)
Labor expenses	(22,218,848)
Depreciation and amortization	(11,099,226)
Other operating expenses	(16,491,102)
Financial expenses	3,612,209
Profit before tax	*(12,044,523)*
Income tax	2,519,382
Net profit after tax	**(9,525,141)**

From the information provided by the entity itself in the notes section the short term biological assets consist of the following items:

Voice	Value
Wheat	139.163
Vegetables	1,272,712
Beans	351.272
Total	**1,763,147**

The following is the extent to which the number of biological agents is lower than the following:

Voice	Quantity	Value
Apricot	4000	5,215,228
Peaches	1000	963.731
Nectarines	5000	5,372,756
Pears	3200	2,673,673
Plum	2800	1,983,193
Total	**16000**	**16,208,581**

Explanation for performance voices as well as biological assets is as follows:

Voice	Value
Revenues from the sale of agricultural product	3,658,281
Change in inventory status of PG and PP (Work performed on short-term biological assets - vegetables)	620,555
Work performed by the entity and capitalized (Work performed on long-term biological assets - fruit trees)	17,863,808
Total	**22,142,644**

Specifically, the fair value model requires value reporting real at the reporting date, regardless of the carrying amount of assets. Fair value may exceed but may be even lower than the value accounting bookkeeping. As a model of assessment creates even plus value and minus value. These differences, only in the case of biological agents, appear at all times by giving the results the efficiency of the economic unit can be effected. On this case a plus value is a source of incomes for the entity.Changes in the assets and liabilities of the parent company are presented in the balance sheet of the financial position. Courses, other than the other activities, and the same as the short-term ones, will result in the result of the period of time being translated. Nonetheless, each of which is the date of reporting, treatment, and the reduction of the incapacity of the active person, is shown in the model. In this way, the model does not overwhelm the fluxes, and the effects on the skin are the same. The biomarker's abilities are high-quality economics, and the assessment of active peelings.

Following also shows the revaluation of long-term assets by type of fruit tree. The new value is due to the prices of the economy and the importance of the fairness of the economy. Evaluation of these activities is commonly associated with the appropriateness that would mean that the biological activities of the process have been successfully developed. During the accounting period the assets change from quality and quantity. The fruit tree seedlings for 2014, the economy and economy, and its viability, at the end of 2015 are year-olds. Even in the market prices, the market is somewhat different than the apple. From the values presented, the explanatory notes are the same for each of the following types of fruit, including the following:

The explanation for the performance rumors as of biological assets is as follows:

Voice	Volume	Cost Value	Unit Cost
Apricots	4000	5,215,228	1,303.81
Peach	1000	963,731	963.73
Nectarine	5000	5,372,756	1,074.55
Pears	3200	2,673,673	835.53
Plum	2800	1,983,193	708.28
Total	16000	16,208,58	

If the entity evaluated the long-term biological assets at fair value at the reporting date, the values presented would were as follows:

Item	Quantity	Price	Value with price
Apriots	4000	513.75	2,055,000
Peach	1000	411.00	411,000
Nectarine	5000	513.75	2,568,750
Pears	3200	500.00	1,600,000
Plum	2800	400.04	1,120,112
Total	16000		7,754,862

IV. CONCLUSIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Considering the current data and analysis about valuation models of biological assets, this paper analyzes the conclusions taken by questionaries and As a main rule, the IAS 41 requires biological assets to be measured at fair value less costs to sell. Ideally, firms that use the unreliability clause of fair value should correspond to the firms that are unable to report biological assets at fair value. Based on some literature and given the results obtained, this paper concludes that there are other reasons related to country and firm environment that could explain this behaviour.

Firstly, with the agency and accounting choice theories, the suggested firm-level drivers, biological assets intensity, firm size, listing status, regulation expertise and sector have a significant positive impact on the probability of the fair value measurement of biological assets.

Secondly, during the analiysis we noted that dosnt exist an active market, which is very important. It is also interesting to note that the recognition of unrealised gains and losses arising from physical or price changes in biological assets.

Thirdly, the standards related with valuation of biological assets should be improved by the national committee of accounting. As noted earlier, some preparers and auditors of fnancial statements have voiced concern over the applicability of the fair value model to small and medium-sized agricultural entities This paper concluded, that because of the measurement problems in inactive markets and developing countries and for cost-beneft reasons, that SMEs should be required to use the fair value through proft or loss model only when fair value is readily determinable without undue cost or effort. When that is not the case, we concluded that SMEs should follow the cost-depreciationimpairment model.

Finally, the study highlights the positive and combined impact between regulation expertise and the sector with fair value measurement of biological assets.

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