

Role of IAS 41 “Agriculture” on Establishment of Innovation Systems

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Abstract – Financial reporting has known as an important information bases for decision makers. It has role on national economic growth, institutional and educational developments, to link to global and other regional systems. This study reviews and discusses theoretical perspectives of accounting around the globe in order to find financial reporting that can be useful information bases. To do so, I surrounded our studies into two approaches: financial reporting general role for economic growth, and report’s consequences to institutional, educational developments. In these regards, I found a significant distinguishing between national financial reporting and international approaches. After that, I focused the study in deep inside of accounting and found the unique accounting opportunities that can be applied to establish innovation system.

Keywords – Financial Reporting, transparency, IAS - 41.

I. INTRODUCTION

Agriculture has been known as a survival sector of many nations and it has multidimensional importance on economic-environmental development. Accounting measures economic trends of a business, summarizes and reports financial information through financial reporting in a form of financial statements. Financial statement's data can be useful for many users in different purposes. The financial reporting is useful information bases for internal and external users. Accounting researches analyze the methods used in accounting in order to find appropriate method that estimates all transections with relevant models. Financial reporting quality depends principles and methods used in accounting. Thus, there is an interrelationship between financial reporting and method, usefulness of such reporting. Researches analyze framework for accounting and its effects to developments in agricultural sector¹. Accounting in agricultural sector can be formulized for different purposes.

In this paper, we focus our study financial reporting quality, its usefulness and understandability for; economic growth, institutional development and interacting to global markets, professional and educational purposes. In doing so, I analyzed financial reporting in globe, identified accounting methods used for financial reporting in different purposes, accounting principles and methods interrelationship with financial reporting quality, usefulness and understandability. This study does not use empirical data, but analyzes theoretical and empirical researches findings and concludes an agenda.

II. THE GLOBAL REALIZATION

It is clear from the most developed economy’s experiences, an economy can be developed in a competitive way though interacting with other economies, through implementing innovative technologies². In this regards, foreign investments movement

¹ See in the refernces list: Vazakidis A. and others 2010, Angiles J.M and others 2001, Mary E. Barth and others 2001

² European and other developed economies accounting culture, and also Common Policies and guides by Uzbekistan Government: Foriegn Investmane law, Foriegn Investment Guarantees Law, etc. www.lex.uz

to enterprises is known as a common way of interacting. The financial statements are the information bases on investor’s decisions making. When we deal with external user’s information need (foreign investors), financial reporting has to be useful for investment decisions through reliable measurements and relevant valuation. Because of, shareholders have to share a part of earnings of an entity. The shareholder has no incentives to shares through investing if estimate of earnings is not reliable. Thus, information and its reliability is important in order to attract investors, in order pooling the investments to the sector in form of innovative technology. Recent studies documented that applying to international standards for financial reporting leads to achieve development in various areas:

- Economic Growth
- Institutional developments
- Professional development
- Educational Development
- Environmental development
- Accounting standards’ development

Investments, moreover foreign investments support the agricultural sector with a huge number of opportunities as shown in above. But how investments can be pooled to agricultural sector? Recent studies jointly argued that financial reporting transparency and understandability for global users is essential in investment movement to the sector.

III. FINANCIAL REPORTING TRANSPARENCY AND USEFULNESS

It is difficult to make estimation concerning to financial reporting transparency. Researchers defined transparency in theoretical approaches and analyzed many variables association with it in empirical studies. Although, transparency has been described as a desirable characteristic of financial reporting. Financial reporting transparency is the extent to which financial reports reveal an entity’s underlying economics in a way that is readily understandable by those using the financial reports (Nobes and etc. 2001, 2007). In a purely physical sense, transparency allows the transmission of light so that transparent items can be seen through. Financial reporting can be considered transparent when it shows an entity’s underlying economics with relevant measurement, disclosure and data can be readily understandable by external users.

To obtain this characteristic, we need to follow international accepted standards³. International accepted financial reporting standards are the principles based standards that a single set of standards focused to increase financial information comparability, understandability across the countries.

IV. ACCOUNTING METHOD

The reliability of financial information supplied through financial reporting depends on the methods used in accounting. To estimate income and equity, many accounting models have been using over the countries. But, the field professionals suggest some specific accounting model for financial reporting. In following, we will analyze some common type of accounting model and their influences on accounting numbers quality, appropriateness for capital providers.

Historical cost accounting: what information do “accounting numbers” provide?

Historical cost accounting model is widely used for a long period. But this accounting model does not show true view of a company when there is inflation in the economy. An example, consider an asset valued according its historical cost and over the year its value changes based on costs. Then, there will be a difference between estimated value of an asset and true market value of that asset. If owner intends to sell, asset can not be sold at the same value which reported in statements. Thus, historic cost accounting model falls when there is inflation in the economy and accounting number is not reliable.

³ IFRSs/IASs Number 41, 16, 13

Replacement cost accounting model

The replacement cost accounting model widely used in many countries. And, highly appreciated by accounting professionals. The studies tested existing model appropriateness in empirical studies. And they documented that replacement cost accounting model predicts inflation in economy in advance. But, what about if predicted inflation rate doesn't meet. This model fails when inflation slows down in the economy. This, combined with the standard setters' failure to properly identify needs of users, the additional cost to companies for the production of current value information, given its subjective nature and the fact that it can be easily disputed, and significant opposition from auditors, meant that this model rapidly dropped when inflation slowed down.

Fair value accounting model

Fair value accounting model⁴ is the most common used model for shareholders behaviors. Last decades financial reporting information usefulness changed; shareholders took central role in financing options of a business, financial reporting must satisfy shareholder's information needs, market value of some certain assets became sole issue for management's decision making too (assets - hold or sale). Fair value accounting model measures all assets and liabilities based on market prices. And the financial reporting supports the users with timely market value of equity. Thus, fair value accounting model found as an appropriate model in terms of financial information relevance, timeliness and reliability.

The studies documented that a number of benefits have been cited to satisfy the use of fair value in the accounting of financial instruments⁵. And, fair value method is based on the discounting of future financial flows and thus provides information which integrates market trends. It is therefore perfectly in line with current methods used by investors to calculate their cash flow estimates. Another argument is fair value method provides information that comparable data within a business with past periods, or between the companies. There are studies documented that fair value accounting model increases earnings volatility. Other studies proved this volatility is occurring through national accounting policies. But our discussion not only about reliability of accounting numbers but also about accounting model usefulness for interacting to the world's markets, pooling investments to agricultural sector. Thus, this model is the best exciting model when the financial reporting information intended for investment purposes, when exchange markets take considerable role in business strategy of an enterprise.

Beside those models, present value of future net cash flows model is also using in many countries. Researchers conclude that adjusting discount rate is main problematic side of this model and using external third party valuation is not appropriate in agricultural sector (Elad etc. 2011). IAS 41 illustrates accounting treatments for agricultural activities in order to support user with timely, comparable and understandable financial information. And, in practice the enterprises still using a mixture of the above mentioned accounting models (enterprises applied to IAS 41). But, studies show that global users of financial information highly appreciate fair value accounting model on investment decisions. That is why, fair value accounting model is the strongly suggested model.

V. CONCLUSION

The study aimed to review theoretical perspectives of accounting around the globe in order to find financial reporting that can be useful information bases to reconstruct national innovative systems. Our study suggests that financial reporting has significant influences to establish innovative systems in agriculture of Uzbekistan. Financial reporting transparency, understandability across the borders, and acceptability through the world is the important accounting aspects. Including those, our concluding remarks are:

- Financial Reporting must fulfil international users information needs
- Financial Reporting must prepared based on IFRSs/IAS 41's principles in order to increase its understandability by international users

⁴ For the origins of the notion of fair value, see Simon (2000), and IASB, Fair value accounting model see IAS 13, IAS 41 Agriculture – pg.8

⁵ For the discussion see the J. Francois Casta (2012)

- Fair value accounting is an appropriate model to increase financial reporting usefulness in establishing national innovative systems

To obtain accounting aspects we need to create Uzbek adoption model for international accepted accounting standards. Moreover, fair value accounting model and its possible implementation is one of the important aspect, which leads Uzbek farms integration to world’s financial markets. In contrast, a re-establishment of innovative systems can be obtained in certain area of agricultural sector.

In addition, financial markets and network externality also has to be taken in to accounts.

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