

COUNTABLE HARMONIZATION IN THE AGRICULTURAL ACTIVITY, -NIC 41-

academy or real world???

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The cattle business has significant profit margins which increase the material assets structure of the organization with more emphasis than the short term assets structure; in other words, this business is financially favorable, but the cash flow is not immediately available, on the contrary, it stays “*walking on the pasture*” for an important period of time.

This is a known truth by all cattle producers, who must get into debt and sometimes reinvest more than the profit in order to stay in the business. It reminds us the fragile situation that rises from the new International Standards for Agricultural Accounting IAS41 (initials in Spanish NIC 41), valid in Europe since 2003, and it is mandatory specifically in Spain since 2005 for stock exchange companies and since 2007 for any other type of organization. In Costa Rica due to legislative mandate it has already been applied since 2002, this year included. In Venezuela its effect will be felt in the large cattle operations beginning in 2008, the small cattle business¹ will be affected since 2010, this year included.

One of the most relevant situations in this regard is the obligation to register the difference in value between the so called reasonable values of the biological assets and their historic cost, traditionally used in agricultural accounting, as portrayed by the results at the very moment when these differences appear. On one hand, this situation gives equal status to the real values of assets and the accounting value is closer to the market exchange value, but on the other hand this compulsive route does not leave other options due to the fact that the IAS 41 defines

¹ On November 2007, the Venezuelan Association for Public Accountants has defined as a small cattle business all of those organizations with less than US \$4,000,000.00 in gross income or less than 50 workers. www.fccpv.org.ve

that the value difference must be registered as a gains or losses of the cycle in which they come registered.

We will see how the tax administration of every country involved in the application of this norm will interpret these profits, which in many cases are opposite to the fiscal norms. We will also see how forestry, olive, livestock, and many more businesses will interpret these differences in values as taxable gains or losses without the option to define it as a deferred asset.

The food and agriculture association will feel easy if amid the studies to adopt the NIC in every country, analysis to recommend internal mechanisms to complement the adoption of NIC 41 are included. These mechanisms would allow food producers from around the world to submit financial information according to agro-technical parameters in such a fashion that the other truth not considered in the NIC 41 can be shown, for example the need to present reports and wise data wherein the deferred liabilities accounts or the assets accounts, gains and losses to be accounted for, are registered. This is particularly important to those countries with economic volatility, inflation and unstable markets.

It is considered that capitalization of costs for biological assets, changes in the fiscal law, and the possible accounting options should be subjects of studies in order to aboard in a practical manner the accounting harmonization; not leaving the task of interpreting this norm only to the academy and researchers without the hands on experience from people involved in the business.

In the next issues we will cover the advantages in regards to the absorption costing method in livestock firms, taking into consideration capitalization of costs per physiological periods, at the moment when the events that define changes in the state of the herds take place.

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