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## Comparative analysis of strategic and tactical decisions in agriculture under the IAS 41 Standard in the context of the emerging markets

Romeo Cătălin Crețu<sup>a</sup>, Raluca Florentina Crețu<sup>b</sup>, Alexandra Muscănescu<sup>a,\*</sup>

<sup>a</sup> Bucharest University of Agronomic Sciences and Veterinary Medicine, 59, Mărăști Blvd., Bucharest, Romania

<sup>b</sup> Bucharest University of Economic Studies, 6, Piața Romană, Bucharest, Romania

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### Abstract

The International Accounting Standard 41 (IAS 41) provides information about agricultural activity respectively biological assets and agricultural produce at harvest. In this paper we propose to achieve a brief comparative analysis of strategic and tactical decisions that must be considered when applying the IAS 41. The provisions of the IAS 41 are however not directly reflected in Romanian regulations. With the increasing number of forest land transactions and foreign investment in farms it is expected that the recognition and evaluation of biological assets under the IAS 41 becomes a necessity (Feleagă et al., 2012). The Order approving the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, introduces a new category of non current assets in Romanian accounting, the one of biological asset and a new class of current assets to inventories, the one of agricultural produce (Dumitru and Hagiu, 2013).

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\* Corresponding author. Tel.: +04 0-724-643-385;  
E-mail address: [alexandramuscanescu@yahoo.com](mailto:alexandramuscanescu@yahoo.com).

## 1. Objectives and applicability area of the standard

The term "agriculture" includes, according to the IAS 41 standard, „animal husbandry, forestry, annual or perennial plant growing, cultivation of orchards or other plantations, flower growing and aquaculture (including fish breeding)".

The objective of the IAS 41 standard is to prescribe the accounting treatment, financial statement presentation and disclosures that relate to agricultural activity, which is a specialized field, so it is not subject to another standard. The IAS 41 standard reproduces:

- A fair value model of accounting for agricultural produce
- Accounting treatment of government grants related to agriculture.

The standard applies to the elements shown in Figure 1:

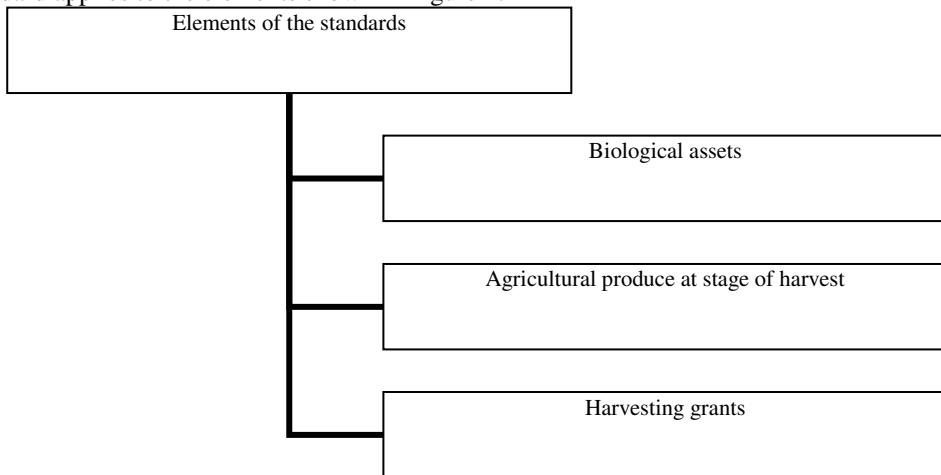


Fig. 1. The applicability area of the standard

(Source: Greuning et al, 2011: 265)

A biological asset or agricultural produce must meet the requirements for assets in order to be recognized in the financial statements of the economic entity.

According to International Accounting Standards „an asset is a resource controlled by the enterprise as a result of past events and from which is expected to generate economic benefits for the economic entity".

The asset will be recognized in the balance sheet "when it is probable the accomplishment of a future economic benefit by the economic entity and the asset has a cost or value that can be measured reliably" (Toma, 2005).

Under the IAS 41 standard, the agricultural activity represents the management of transformation and harvest of biological assets by an economic entity, for processing in agricultural produce (the product harvested from the biological assets of the economic entity) or in the biological assets (living animal or plant - Figure 2 ).

Agricultural produce can be of plant and animal nature (Figure 3). Managing biological transformation represents the agricultural activity. The biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

In the biological transformation there can be obtained the following results:

- ✓ changes of assets through:
  - growth (quantitative or improvement of the quality of an animal or plant);
  - degeneration (a decrease in the quantity or deterioration in quality of an animal or plant);
  - reproduction (production of additional live animals or plants);
  - ✓ production of agricultural products (such as latex, tea leaves, wool and milk).

The harvest represents the separation of agricultural products from a biological asset or the cessation of life

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