



**"The Role and Responsibility of the External
Auditor's Report on the Biological Assets in the
Economic Units—A Field Study on the Egyptian
Environment"**

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List of Abbreviations

DSOP.	Draft Statement of Principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ASA	accountability state authority [ASA]

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Chapter One

Biological Assets According to the IAS No. 41

and

Egyptian Standard No. 35

1.1 Introduction:-

The agricultural sector is one of components the national economy, which is considered as the basis for various activities group, whether commercial or industrial or agricultural, and the biological assets are the major asset of agricultural activities and acquired for the possibility of transformation inherent. Biological assets are characterized by a set of unique features that distinguish them from other assets, a biological asset is a living animal or plant are owned by the agricultural enterprises that working in the field of agricultural and those assets have a number of characteristics is representing in the ongoing biological transformation that comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset, As well as those assets are exposed to factors that can be controlled [lighting, nutrition, irrigation, etc.], and other factors cannot control it [rains, epidemics, diseases, sudden change in temperature ... Etc].

The Biological transformations characters and the associated changes in its lead to the change of the real value of those biological assets across financial periods and different from its book value, and this have negatively effects on financial statements that reflect the reality of the financial position of the agricultural enterprise^[1].

^[1] Charles Elad and Kathleen Herbohn, 2011, **"Implementing Fair Value Accounting in the Agricultural Sector"**, Sater the Scottish Accountancy Trust for Education and Research, Scotland, p.VI.

Also a several attempts were made in order to find an accounting standard for the sector, both on a national and on an international level. However, it was on the IASB scope that the first relevant and wide international standard appeared.

The development of this entire process was hastened in the past few years as follows^[1]:

_ **In 1996: Draft Statement of Principles (DSOP)**, setting out the issues that should become standards, the ways of doing it and the alternatives for such process.

_ **In 1999: Exposure Draft E65, Agriculture**, was published in July 1999, and was submitted to the financial information users with a comment deadline of 31 January 2000.

_ **In 2000: International Accounting Standard n° 41 “Agriculture”**, approved in December 2000, and which came into effect from the 1st January 2003 on for all the financial statements.

1-The Draft Statement of Principles (DSOP), asked for comments on the feasibility of developing an International Accounting Standard on agriculture. Here the comments were divergent since there were some people that defended that the diversity of agricultural activity could not be handled in a single standard. Others thought there was a need to develop a standard simple to apply but broad in application. Others said that different principles should attach to agricultural activity with short and long production cycles. Commentators also noted that agriculture is one of the main sectors, with a significant weight in some countries economy.

2-The Exposure Draft E65 called “Agriculture” was published in July 1999, and submitted to evaluation by financial information users until 31st January 2000. This became Avery controversial issue due to the non-conformity of opinions of the different financial information users.

^[1] Azevedo, Graça Maria do Carmo, 2007, ” **Dimension of the Company versus Knowledge of IAS 41**”, Universidade de Aveiro, Portuga, pp.3-5.

3-The Exposure draft (IASC, 1999) proposed in general terms that^[1]:

- All biological assets are measured at their Fair Value;
- All agricultural produce is measured at Fair Value at the point of harvest; and
- The acknowledgement of Fair Value changes on biological assets should be taken to gains or losses.

This standard's project defines the process that culminates in the harvest as the limit for its intervention area. It does not take a pacific position and there are even defenders of positions which comprised some agricultural produce obtained after harvest. Thus, many were the entities against this standard project. As far as **the IAS 41** is concerned, the IASB encouraged its application beforehand, but the company has to advertise it. Within the scope of the standardization of this standard are the accounting treatment, the financial statements' presentation and the disclosing of aspects on activities related to agriculture.

Agricultural activity covers a diverse range of activities and products. The word agriculture does not have, therefore, a straight definition. However, the IAS 41 defines agricultural activity as the management of a company through biological transformation of biological assets for sale, into agricultural produce or into additional biological assets. The standard establishes as a limit of its area of intervention-related to the definition of the accounting treatment prescribed for the accounting recognition of biological assets (during its period of growth, degeneration, production and procreation) and for the initial measurement of agricultural produce (at the point of harvest) - the process that culminates in the harvest.

The standard's aim is to improve and to adjust the methods used for the recognition, valuation and registration in the financial states of the financial impact of events and transactions related to agricultural activity.

^[1] **Ibid**, pp.4-5

This chapter aimed to identify the nature of biological asset, determine the biological characteristics that make it different from other assets.

The objectives of this chapter are to:-

- Definitions of biological asset.
- Agricultural activities branches.
- Characteristics and element of asset
- Characteristics of biological assets

The agricultural activities in the past were achieving a little attention from the accounting companies in the world as a result of the following reason:-

- The organization of putting the main accounting standards whether the national standards as international standards which belongs to United States or United Kingdom which their economic depends on industry and a little of agriculture with the comparison by the less-developed countries all over the world .
- The private, familial projects and sole proprietorships that dominated on the agricultural activities which encourages the owners from the external parties to no care about the accounting and preparation the financial reports for biological assets, the expenses and revenues which related to their change and transfer to the agricultural products or plant-animal products, and therefore difficult to audit agricultural activity, including biological assets

The researcher concluded that the attention has emerged recently by the International Accounting Standards Committee of the need to trend towards the accounting for agricultural activity and biological assets and that for the following reasons: -

- 1- The agriculture as an economic activity in many countries of the world considers the main industry as it extend to more than 50% percent from the total national proceeds . In Egypt the agricultural is represent 14.7% to the total GDP which measured as \$548.8 billion”purchasing power parity, 2012 “and labor force occupied 32% in agricultural^[1], so we must not neglect this sector from the accounting side and audit process in the time which the accounting and financial reporting and audit process for the economic, industrial and commercial activities were prefect and completed .
- 2- Inability of currently accounting application to meet the needs of the parties, both internal and external from accounting data and information relating to the administration of biological assets in the agricultural businesses enterprises resulting in difficulty of review process because of the lack of validity of accounting information and therefore the issuance of accounting reports is not reflective of reality accounting for agricultural businesses enterprises.

^[1] Economy: Egypt”**2012 imports figures of Egypt**”, CIA the world factbook 2012 est

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- 3- Lack of interest in accounting for biological assets resulting to the different accounting treatments in agricultural facilities, which led to the difficulty of review process in the agricultural facilities.
- 4- unavailability of the necessary analytical data and accounting information which are necessary to the management of agriculture's company for planning, organizing, control and decision-making which related to the current activity and future investment which led to shortcomings in financial accounting and management accounting in the field of agricultural activity, which led to the difficulty of review process for the assets of facilities including biological assets.

The International Accounting Standards Committee finally resulting that the exclusion of agriculture from the scope of the international accounting standards was inappropriate and then issued IAS 41 titled "Agriculture" begins to be applied in agricultural facilities starting from January 2003 which including the biological asset

1.2 Definition of biological asset

Biological asset is mainstay of the pillars of the economic structure and social development in Egypt, where the biological asset enjoys an importance in the economic development of the country, including its contribution to add to the gross national product [GNP] through the plant and animal production and fish farms and exports of some biological assets which represent a source of foreign exchange needed for economic and social development.