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AGRICULTURE ACCOUNTING AND RURAL BUSINESS: AN OVERVIEW

Dr. Anil Verma*

ABSTRACT

Agriculture has being the largest source of employment to our public in rural area. In spite of providing employment to large number of citizens, yet farming is not regarded as full-fledged business in India Farmer takes risks like an entrepreneur, makes investment in the hope that the value of his product or produce will be enough to cover his costs and generate sufficient profit. Farmers do enjoy the profit arising from his endeavour and also bears pain of loss from his endeavour. Major chunk of exports of our country comes from agriculture or allied industries, so for a country like India, where Agriculture sector enjoys tax exemptions to let such a big sector go without proper accounting is highly unacceptable. Farming in India, which was mainly intended for meeting household requirements before independence, is now becoming more commercialised with emergence of corporate players. Now farming has not only traditional activities as its part, but it includes activities like horticulture, nurseries, poultry farming sericulture, dairy farming, orchards, etc. The term "Agriculture Accounting" popularly known as farm accounting encompasses use of accounting tools and techniques in the field of agriculture. The paper is attempted to summarize the process, and impart awareness about this facet of accounting.

KEYWORDS: *Agriculture Accounting, Farm Book Keeping, Biological Assets, Biological Transformation.*

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Introduction

India after 70 years of independence have remained predominantly agriculture dominated country, even when Indian agriculture is regarded as gamble on monsoon. Agriculture has being the largest source of employment to our public in rural area. In spite of providing employment to large number of citizens, yet farming is not regarded as full-fledged business in India Farmer takes risks like an entrepreneur, makes investment in the hope that the value of his product or produce will be enough to cover his costs and generate sufficient profit. Farmers do enjoy the profit arising from his endeavour and also bears pain of loss from his endeavour. Major chunk of exports of our country comes from agriculture or allied industries, so for a country like India, where Agriculture sector enjoys tax exemptions to let such a big sector go without proper accounting is highly unacceptable. Farming in India, which was mainly intended for meeting household requirements before independence, is now becoming more commercialised with emergence of corporate players. Now farming has not only traditional activities as its part, but it includes activities like horticulture, nurseries, poultry farming sericulture, dairy farming, orchards, etc. That is why it has become more evident that agriculture accounting should be adopted.

The Agriculture accounting or accountancy is also known as "Farm Book keeping" holds within. Cost studies, book-keeping, farm cost accounting, farm records and, in so doing, calls upon all the analytical tools and techniques of traditional accounting. The term "Agriculture Accounting" popularly known as farm accounting encompasses use of accounting tools and techniques in the field of agriculture. The earliest historical record of Farm Accounting as a specialist section of the general

* Assistant Professor, Department of Accounting, Jai Narayan Vyas University, Jodhpur, Rajasthan, India.

accounting field is contained in Robert Loder's Farm Accounts, 1610 to 1620[1]. Agriculture accounting is a technique of accounting that keeps track record of his supplies, outside transactions, inventories, and other assets, which would help him in managing farming business effectively and efficiently. Agriculture accounting uses traditional accounting principles, concepts and conventions in the field of farming. Batte and Forster (2008) stated that farm records are systematic records of all activities and transactions regarding all aspects of farm operations. Farm accounting on the other hand, is the extraction and analysis of the farm records for the purpose of determining the assets and financial situations of the farm at a particular period of time (Okojie&Ayinde, 2012). Agriculture accounting of farm accounting is in the evolutionary stage and much work is needed to be done in this aspect of accounting. It's disgusting to note the fact that India being agrarian economy that he current accounting systems there is nothing specific in terms of guidance which can be talked about how to account for agriculture activities based on their very different nature comparing to other normal goods and services. IndAs 41 and booklet is showed by ICWAI are some guiding post on woes nine farm accounting is done in India. The Agriculture Accounting or Farm Accounting is a is an accounting technique that uses accounting data for ascertaining cost and profit for farming activity and decision making with regard to the most profitable line of activity. By farming activity It is meant that process of transferring biological assets for sale or conversion into agriculture produce or additional biological assets like forestry etc. Now the question arises, what are biological assets? "Biological assets" is one of the categories of assets

International Accounting Standard 41 (IAS 41) defines biological asset as "a living animal or plant". Biological assets include animals such as goats, sheep, cows, buffaloes, calves, and fish and plants such as vegetables, crops, vineyards, trees, and fruit orchards. Biological assetsgrow, degenerate, produce and procreate in other words; they go through transformation process termed as "Biological Transformation." This transformation or change may be qualitative or quantitative in nature. The harvested product or produce of biological assets is known as "Agriculture Produce."Harvest can be understood as extraction or a detachment of produce from a biological asset or the cessation of a biological asset's life processes. Farm businesses generate revenue from these biological assets therefore, it becomes inevitable for farm businesses that these biological assets to be recognized in balance sheet and the income earned from them also need to be recognized in income statement. According to Ind -AS 41 an entity shall recognise a biological asset or agricultural produce when and only when:

- The entity controls the asset as a result of past events;
- It is probable that future economic benefits associated with the asset will
- Flow to the entity; and
- The fair value or cost of the asset can be measured reliably.

Ind AS 41 further clarifies about measurement a biological asset that generally, it should be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, barring biological assets whose fair value cannot be measured reliably. Regarding measurement of agriculture produceInd AS 41 states that, Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest.

Agriculture Accounting Transactions

All agriculture activitieshaving a monetary impact on the financial statements of a farm become subject matter of agriculture accounting, known as agriculture accounting transactions. These agriculture accounting transactions can be classified into the following:-

- Exchange Transactions-even after seven decades of independence have gone by its harsh reality that this biggest unorganised sector has Eugene number of "barter transactions" for say: manual labour is exchanged for mechanisedlabour, cattle for output etc. these exchange transactions are recorded at opportunity cost – the price in the open market.
- Cash Transactions-are those transactions which are settled immediately and are recorded in the same way as in traditional accounting.
- Credit Transactions-are those transactions which are settled or promised to be settled on a future date. They also are recorded in the same way as in traditional accounting.

[1] Robert Loder's Farm Accounts, 1610-1620, edited by G. E. Fussell for the Royal Historical Society.

- Notional Transactions-due to applicability separate entity concepttransactions that take place between the members of the owner's family and the farm are also recorded in the books of agriculture accounting. These transactions are termed as notional transactions.

Books of Account to be kept in Agriculture Accounting

First and foremost cash book is kept by the farmers as agriculture business in India is mostly carried on cash basis by the farmers who don't have enough resources to maintain full frigid accounting system and therefore, analytical cashbook is generally maintained by them. Analytical Columns in the cash book, both on receipts and payments side, the accounting can be made very simple as it would help farmers to jet necessary information for preparing final accounts without indulging in what seems to him, toil task of maintaining subsidiary books and Ledger. To keep track of his stock showing wasted of stock, loss, issue/sale, output producedand balance of stock. Debtors and creditors register can also be maintained by the farmers for keeping record of his credit purchases and sales. There are large number of notional transactions are carried out in farming business thus a separate Notional Transactions Register can also be maintained. Fixed assets register can also be maintained to keep track record of assets held by the farm so that problems related to depreciation and valuation of assets can be really solved. Farmers in India should also maintain loan register to keep track record of his principal payments, interest payments, amount of loan taken etc. as farmers in India has to face harsh times, which might eventually culminate into a suicide.

Preparation of Final Accounts of Agriculture Business

The Final Accounts of farming entity consists of balance sheet and income statement, which are formed on the lines of traditional accounting systems. The income statement shows profit or net farm income that isthe amount by which the value of total products produced in the accounting period exceeds the value of the total resources used during the same period (Dennis, 2003). Whereas balance sheet shows the assets and liabilities of the farm business at a specific point in time, usually the last day of financial year shows. However, nothing prevents one from making an accounting year correspond with the production (Dennis, 2003).

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