



Determining and Accounting of Fair Value in Agricultural Activities

Ahmet GÖKGÖZ

Yalova University
Yalova Community College
Program of Accounting and Tax Applications
ahmetgokgoz83@gmail.com

Extensive Summary

TMS 41 Agricultural Activities Standard was published in order to direct the accounting applications regarding agricultural activities. In TMS 41 standard, agricultural activity was described as conversion of biological assets subject to sales or recycling to agricultural products or different biological assets and the management of harvest operations by a corporation. In Standard living animals or plants are expressed as “biological asset”, while the product harvested from biological assets owned by the corporation was described as “agricultural product”.

The subject of agricultural production consists of biological assets and agricultural products. Biological assets and agricultural products having biological conversion property by growing, reproduction, spoilage or rotting makes the valuation subject important in agricultural activities. According to standard, biological assets are valued in the date when they were first recognized and at the end of every reporting period by deducting the sales cost from realistic values. Agricultural products are valued at harvest point by deducting the sales cost from realistic values. In TMS 41 standard regulating agricultural activities, regarding the valuation of biological assets and agricultural products, fair value approach is adopted.

According to TMS 41 standard, the determination of fair value of biological assets and agricultural products can be summarized as follows:

- If there is an active market of living creature or agricultural product, the price forming in the active market is taken into consideration as fair value.
- In case any active market is not present, last market done deal price, market price of similar creatures or sector peer price can be used.
- If there is not a market price for living creature or agricultural product for the time being, the fair value is determined by current discount ratio of net cash flow occurring in the market and their current value after discount.

In some cases, in the valuation of biological asset or agricultural product, historical cost is taken into consideration. Historical cost is taken into consideration in 2 cases. First is the failure in determination of fair value and second is the period between first recognition and first reporting not being important in means of biological conversion.

After the fair value of biological asset or agricultural product by methods mentioned in TMS 41, the increase or decrease occurring due to valuation should be recorded after correlation with income table. However according to Turkish Tax Regulations, the differences occurring between fair value and valuation result are legally income or expense that are not legally accepted. Because according to the regulations, sales should be realized for income or expense to occur.

In the study; determining process of biological assets and agricultural products' fair value adopted by TAS 41 is explained. Afterwards; recording of increase and decrease, occurred due to the valuation by the framework of TAS 41, through the accounts offered to the Uniform Chart of Accounts.