Biological assets in accounting of socially responsible activities of agricultural enterprises

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Abstract.

The scientific work describes the theoretical provisions and proposals for improving the process of information disclosure about biological assets in the account of socially responsible activities of agricultural enterprises. The need to develop organic production is described as an important area of socially responsible behavior of agricultural enterprises; the essence of biological assets as a specific object of accounting of socially responsible enterprise is

revealed and the necessity of separate accounting of biological assets in accordance with the requirements of the Law of Ukraine "On basic principles and requirements for organic production, circulation and labeling of organic products" is substantiated; the classification of biological assets as a basis for their accounting by socially responsible enterprises is offered to be improved (it is proposed to introduce a feature "belonging to the type of agricultural production", which will identify biological assets used in organic production and biological assets used in inorganic production); the process of disclosure of information about biological assets in the financial statements is offered to be improved in accordance with the needs of socially responsible enterprises, their investors, buyers and other stakeholders in the development of the bioeconomy. The practical significance of the main results of the study lies in the possibility of their use in accounting for the social responsibility of agricultural enterprises. In particular, proposals for the classification of biological assets used in organic production are the basis for building a work plan of accounts, and therefore are the basis for the formation of the necessary information for the preparation of various types of reporting and management decisions.

Keywords: Biological assets. Social responsibility. Accounting system

1. Introduction

In the modern world, there is a tendency to carry out economic activity in a socially responsible way. Such processes are also taking place in Ukraine, where more and more agricultural enterprises and their buyers are showing interest in one of the areas of socially responsible activity, in particular organic agricultural production. Organic farming is a production system that supports the health of soils, ecosystems, and people. It depends on environmental processes, biodiversity, and natural cycles specific to local conditions while avoiding the use of harmful resources that cause adverse effects, as it is mentioned in Definition of Organic Agriculture (2008). Today, millions of farmers (certified and non-certified) manage their organic farms, and hundreds of millions of consumers buy organic products, as of Organic 3.0 - for truly sustainable farming and consumption (2017). According to a recent survey by the International Federation of Organic Agriculture Movements and the Research Institute of Organic Agriculture, more than 72.3 million hectares of agricultural land in the world are organic, and retail sales of organic products will continue to grow, according to the data of 187 countries. The global organic food market reached 106 billion euros in 2019, leaders are the United States (44.7 billion euros), Germany (12.0 billion euros), and France (11.3 billion euros). Willer at al (2021) stated that ten or more percent of agricultural land is organic in 16 countries, but in many countries, this share is much higher and has a steady upward trend. As for Ukraine, despite the favorable natural and climatic conditions for the development of organic production, it has significant untapped

potential.

One of the reasons for this is the problem of high-quality accounting and analytical support for the management of organic agricultural production and the disclosure of information about biological assets in the context of compliance with modern trends in socially responsible activities. Agricultural production is a specific type of economic activity first of all because it is closely related to the use of biological assets, namely agricultural plants, and animals. At the same time, weather conditions, seasonality, natural disasters (floods, droughts, frosts, hail, etc.) have a significant impact on the management of such production. In addition, socially responsible agricultural enterprises face the problem of accounting for specific types of biological assets (including organic), the cost of certification of organic production, reflecting the results of their activities in sustainable development reporting or other similar reports.

Therefore, *the hypothesis of the research* is based on the thesis that for the development of organic production as a field of socially responsible activities of agricultural enterprises it is necessary to improve the process of disclosure of biological assets in the accounting system and, in particular, in financial and sustainable development reporting.

2. Literature Review

Organic production is a practical implementation of the concept of sustainable development of the agricultural sector and a reflection of socially responsible behavior. It involves a combination of environmental protection, economic growth and social development as interdependent and complementary elements of strategic development of the state and individual enterprise. It will guarantee the population high quality food as an important component of food security, according to Romanko (2011), as well as economic security.

Therefore, research in this area is promising. The Research Institute of Organic Agriculture plays a special role here, whose strengths are in its interdisciplinary research, due to innovations developed jointly with farmers and the food industry, as well as in solution-oriented development projects and rapid transfer of knowledge from research to practice (Adelkin (2005)).

Our study is focusing on an important area of socially responsible activities of both small and large agricultural enterprises - organic production. Due to this, we see the special role of agricultural enterprises in achieving 2nd goal of sustainable development "Solving the

Problem of Hunger", 12th "Responsible Consumption", 15th "Preservation of Terrestrial Ecosystems". Solving problems of accounting information needed to manage organic production will contribute to this.

We analyze the works of scientists on the interpretation of the essence of the concept of "corporate social responsibility". Thus, studies related to the definition of the essence of this concept interpret this category differently, in particular, it can be seen from the works: (2020); (2003); Young (2021); Adnan at al (2018); Campbell (2007); Hwang at al (2019); Pylypiv at al (2020); Islam at al (2021); Halkos at al (2021); Friedman (2006); Pakhucha (2016). Norwegian scientist O. Dalsrud (2016) after analyzing 37 definitions of the term "corporate social responsibility" reports that, according to some interpretations, social responsibility includes only voluntary actions of enterprises; other authors are inspired by the concept of "external factors" and suggest that companies should be involved in managing the negative social and environmental consequences of economic growth along with governments and other institutions.

Corporate social responsibility is a voluntary contribution of business to the development of society in the social, economic, and environmental spheres related to the main activities of the company (2016). An important point is that socially responsible behavior is related to the main activity of the business entity, and everyone must find their niche, their direction in which it is possible to qualitatively and effectively contribute to achieving the goals of sustainable development. As already mentioned, for agricultural enterprises it is organic production.

In previous studies Pylypiv at al (2018), we described the relationship between the implementation of social responsibility with the accounting and analytical management system of the entity and the fact that the effectiveness of management in agricultural enterprises is determined by the integration of three indicators: economic, social and organizational management efficiency (Yakubiv at al (2020)). In the process of organic production management, accounting information on biological assets is required. They must be identified separately given their value and distinctive features from other assets to be able to meet the requirements of organic production legislation, as well as the correctness of disclosure in various types of reporting, including sustainable development reporting.

Disclosure of the essence of biological assets, their classification, and some aspects of accounting in agricultural enterprises were considered by the following domestic economists Zhuk (2012); Kireitsev (2006); Mossakovsky (2015); Ogiychuk (2009); Sabluk (2008); Sokil (2020); Souk (2006), Kotsupatriy (2006), Zamula (2006) and others. In different countries,

studies related to the solution of problems of accounting for biological assets have specific features related to the requirements of national legislation in this area. Among such researches and publications, we highlight works of scientists Arbidane at al. (2018); Ore (2011); Kulish (2014); Biljon at al. (2019); Bohusova at al. (2016); Rabassi at al. (2011); Mirovic at al. (2019); Daniel at al. (2017); Balanyuk at al. (2021), (2019) and others.

At the same time, there are still many unresolved issues, primarily related to the diversity of biological assets, the conditions of their cultivation and use in production, adaptation of biological assets to modern society, which is increasingly aware of the need to consume organic agricultural products. That is, there is a need for research related to the disclosure of information about biological assets in the accounting system of a socially responsible enterprise.

The purpose of the article is to summarize the theoretical provisions and provide suggestions for improving the process of disclosure of information about biological assets in the accounting of socially responsible activities of agricultural enterprises.

3. Methodology

The theoretical and methodological basis of the study is a dialectical method of cognition, a systematic approach to the study of economic processes, scientific works of domestic and foreign scientists on the accounting of biological assets and socially responsible activities of agricultural enterprises.

Also, explanatory research method was used to present proposals for improving the work plan of the accounts of a socially responsible agricultural enterprise. The descriptive research method was used to describe the classification of biological assets and its impact on biological assets measurement and reporting.

In order to develop proposals for improving the process of disclosure of information about biological assets in accounting for socially responsible activities of agricultural enterprises, a deep analysis of regulatory documents in this area was necessary, for which the analytical method was applied. Regulatory acts were analyzed in terms of levels of regulation and impact on the accounting process.

The research also used an abstract-logical method to conclude the improvement of accounting for biological assets in enterprises engaged in organic agricultural production.

4. Results

Organic agricultural production is a management system aimed at obtaining environmentally friendly (organic) agricultural products, preserving the environment, biodiversity and restoring natural resources, in which during all stages of production (cultivation, processing, storage, transportation, and sale) is strictly limited or excluded the use of artificial chemicals (fertilizers, chemical plant protection products, and pesticides, chemical feed additives, livestock growth stimulants, antibiotics, hormones, preservatives, etc.), as well as genetically modified organisms (hereinafter - GMOs) (2019). However, it should also be noted that organic can be considered only the production that meets the requirements of legislation in this area, namely the Law of Ukraine "On basic principles and requirements for organic production, circulation, and labeling of organic products" (2018).

In agriculture, organic production involves the use of biological assets, which, given their importance and distinctive features from other assets, require specific accounting and regulation of this process. According to IAS 41 “Agriculture” (hereinafter - IAS 41), a biological asset is a living animal or plant (2016). This definition does not specify the object of accounting. Not all live animals and plants can be accounted for, but only those that meet the criteria for recognition of an asset. However, IAS 41 specifies that “a fruit plant is a living plant that: (a) is used in the production or supply of agricultural products; b) is expected to bear fruit for more than one period; c) for which there is a remote probability that it will be sold as agricultural products, except in cases of its sale as a secondary raw material” (2016). In Ukrainian accounting there is a trend towards international integration and appropriate adaptation of legislation. But in the case of analysis of definitions of biological assets, we see that in Ukrainian Accounting Standards 30 "Biological assets" it is more meaningful: "Biological asset is an animal or plant that in the process of biological transformation is able to provide agricultural products and/or additional biological assets, as well as to bring economic benefits in another way” (2005).

After analyzing the views of scientists on the definition of biological assets, we conclude that most of them recognize biological assets as living organisms owned by the enterprise and used in the production process. For example, Zhuk (2007) indicates: "biological assets are living organisms (animals and plants) that are grown by the enterprise for the purpose of obtaining agricultural products or kept by it for the purpose of getting other benefits".

However, there are also completely different (atypical) interpretations of the term "biological assets". For example, Voronovska (2006) names biological assets all objects of the

biosphere, which the company uses in its activities. Zamula (2006) sees in biological assets the components of the ecosystem that benefit the enterprise. Suk (2006) points out that biological assets are a "phenomenon of life", i.e. living animals or plants capable of biological transformation.

Bohdanyuk (2011) sees a different meaning of the concept of biological assets, distinguishing understanding at the macro and micro levels: biological assets are part of the national wealth of the country, which is established ownership and exercise their functions: resource, environmental services, food provision, and welfare people; biological assets are natural resources used in agriculture, controlled by the enterprise, capable of biological transformation, the result of which is to obtain additional biological assets and biologically complete, environmentally friendly products.

When characterizing biological assets for accounting purposes, it should be borne in mind that they are living organisms that exist and develop under the laws of nature. This determines the characteristics of biological assets that distinguish them from other assets of the enterprise. Among such features, Perevoznyk (2007) allocates a long duration of the operating cycle, dependence on the influence of the external environment (air temperature, precipitation, etc.), biological characteristics of plants and animals.

In the case of organic agricultural production, it is necessary to keep separate records of biological assets used in organic crop or livestock production. Especially when the company is able to bring into line with the requirements of organic production only a certain area of activity, or it is in the process of implementing the principles of organic production. Therefore, the essence of biological assets in terms of accounting will correspond to the above-analyzed approaches to the interpretation of the essence but should be adjusted according to the normative definition of organic crop or livestock and taken as a basis for further reflection in the accounting system. Organic crop production according to the Law of Ukraine "On Basic Principles and Requirements for Organic Production, Circulation and Labeling of Organic Products" is organic production associated with growing cultivated plants, as well as provision of flora in compliance with legislation in the field of organic production, circulation, and labeling of organic products; organic livestock is organic production associated with the maintenance, breeding (production) of farm animals (including poultry and insects) and products to obtain products of animal origin (2018).

To correctly and meaningfully reflect information about biological assets in the accounting of agricultural enterprises, they must be classified not only based on national accounting standards but also taking into account the specific features of a particular

enterprise and its positioning as socially responsible. And also based on the need to ensure the interests of consumers, who are increasingly paying attention to product quality, its organic origin.

Before making suggestions for improving some aspects of accounting for biological assets, based on the need to adequately meet the information needs of socially responsible enterprises and enable compliance with the requirements for organic production, we consider the classification of biological assets, presented in regulations. Ukrainian Accounting Standards (2005) divide them into long-term and current biological assets; biological assets of crop and livestock production. This classification is the basis for assessing the objects of accounting, as well as to determine the financial performance of the agricultural enterprise.

Zamula at al. (2012) believes that the more features of the classification are presented, the higher the level of knowledge of the object is, and in accounting, this means that sufficiently detailed information will be presented to make management decisions. Most authors distinguish the following features for the classification of biological assets (primarily based on the features presented in the Ukrainian Accounting Standards and Instructions for the use of accounting accounts): by expiration date (long-term and current); by the nature of depreciation (biological assets that are depreciated and biological assets that are not depreciated); by ownership of the enterprise (own and leased); on the basis of maturity (mature and immature); by the possibility of obtaining agricultural products (biological assets - carriers and biological assets - consumed), by the valuation method (biological assets valued at fair value and at cost).

The classification of biological assets on various grounds for the purposes of their accounting and suggestions for improvement are shown in Fig. 1.

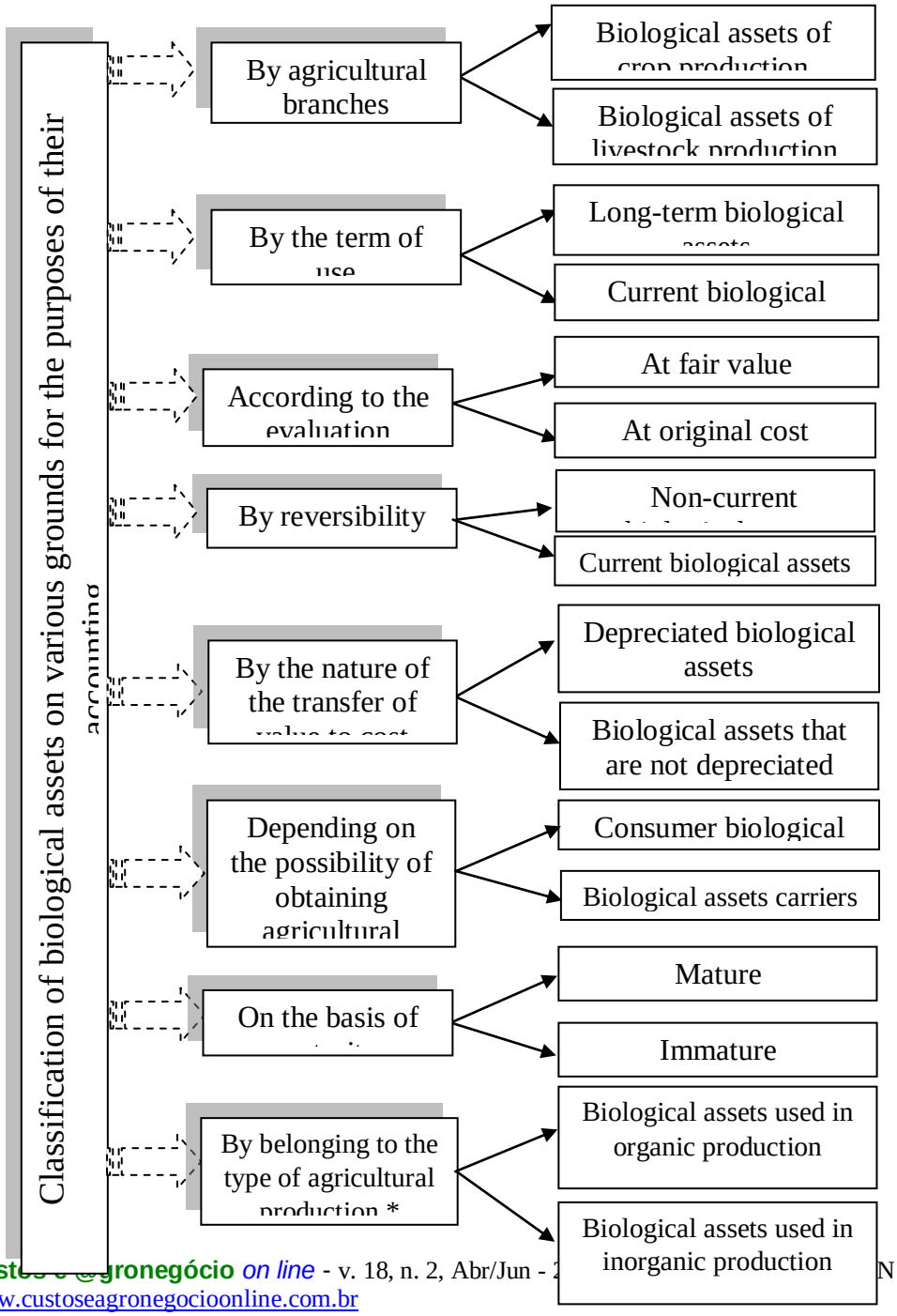
Classification of biological assets on various grounds for the purposes of their accounting
By agricultural branches
Biological assets of crop production
Biological assets of livestock production
By the term of use
Long-term biological assets
Current biological
According to the evaluation
At fair value
At original cost
By reversibility
Non-current
Current biological assets
By the nature of the transfer of value to cost
Depreciated biological assets
Biological assets that are not depreciated
Depending on the possibility of obtaining agricultural
Consumer biological
Biological assets carriers
On the basis of
Mature
Immature
By belonging to the type of agricultural production *
Biological assets used in organic production
Biological assets used in inorganic production

Figure 1: Classification of biological assets on various grounds for the purposes of their accounting (* suggestions of the authors)

The most important (from the traditional point of view) classification feature for the organization of synthetic accounting at the enterprise is "by the term of use" of biological assets: current and long-term biological assets. Current biological assets are those biological assets that are capable of producing economic benefits over a period not exceeding 12 months. Long-term biological assets - all biological assets that do not meet current criteria. The division by industry into crop and livestock is the basis for the allocation of sub-accounts in the accounting of biological assets.

Mature and immature biological assets are distinguished on the basis of maturity. Mature are long-term biological assets that have reached a level at which they are able to regularly increase the economic benefits of the enterprise in the form of agricultural products or additional biological assets and current biological assets that have met certain criteria of body development (weight, fatness, etc.). All biological assets that do not meet the above criteria are considered immature.

Given the development trends of society in the direction of increasing eco-awareness and the need for socially responsible behavior of agricultural enterprises, it is becoming increasingly important to identify the features of the classification based on ecology. Thus, the authors (2012) divide biological assets "depending on the environmental direction" into environmentally friendly, non-environmentally friendly, and GMO. Ecologically clean are biological assets that meet state quality standards, are created in environmentally friendly conditions, and do not harm the environment. GMOs are organisms whose cells have been genetically engineered. All other biological assets are not considered to be environmentally friendly.

But given the development of organic production and its clear regulation with the entry into force of the Law of Ukraine "On basic principles and requirements for organic production, circulation and labeling of organic products" (2018) it is not enough to indicate that products are environmentally friendly, GMO-free, etc. n. There must be clear compliance

with the criteria of the legislation. It should be noted that the branches of organic production include organic crop production (including seed production and nursery); organic livestock (including poultry, beekeeping); organic mushroom growing (including cultivation of organic yeast); organic aquaculture; production of organic seaweed; production of organic food products (including organic winemaking); production of organic feed; provision of organic objects of flora.

This has an impact on the classification of biological assets, so it is advisable to introduce the feature "according to the type of agricultural production" (Fig. 1). Thus, it is possible to identify in the account biological assets used in organic production and biological assets used in inorganic production (with the necessary detailed information according to the branches of organic production).

Accounting for biological assets, taking into account this aspect, will allow consumers of agricultural products to obtain complete and accurate information on the conditions of cultivation of agricultural products and more effectively manage the socially responsible activities of agricultural enterprises.

Peculiarities of agricultural enterprises necessitate the use of specific reporting indicators. The current forms of financial reporting do not take into account the sectoral characteristics of agriculture. This is especially true for the disclosure of information about biological assets.

Before disclosing information about biological assets in the financial statements, the agricultural enterprise carries out a complex process of documenting business transactions, recording in the accounts, and generalization in the registers. Let's focus on some aspects of accounting for biological assets as one of the key economic categories of agricultural enterprises, which, due to its diversity, requires a developed system of synthetic and analytical accounting. The traditional system of accounting cannot fully meet the information needs of users of accounting data, for which socially responsible behavior and the organic nature of agricultural activities are important.

In table 1 proposals for improving the chart of accounts of a socially responsible agricultural enterprise are given. The basis of this system is the division of biological assets according to the proposed classification of socially responsible enterprises (Fig. 1). Similarly, it is advisable to detail long-term biological assets.

Table 1: Option to use in practice proposals to improve the work plan of the accounts of a socially responsible agricultural enterprise

The name of the synthetic account	Subaccount		Analytical account		
	Code	Name	Classification feature	Code	Name
21 “Current biological assets”	211	Current biological assets of crop production that are measured at fair value	By belonging to the type of agricultural production	211.1	"Current biological assets used in organic production"
				211.2	"Current biological assets used in inorganic production"
…	etc. …	…	…	…	…

The availability of such information will allow it to be disclosed in the financial statements (f. № Balance Sheet (Statement of Financial Position) and f. № 5 Notes to the Annual Financial Statements) taking into account the concept of materiality. If the agricultural enterprise is not obliged to submit Notes, then analytical data on biological assets on the basis of "By type of agricultural production" may be provided in any of the formats of the Sustainable Development Report.

Ukrainian Accounting Standards 1 allows the financial statements to be supplemented with new items, which are listed in Annex 3 to Ukrainian Accounting Standards 1 (2013), usually with the preservation of the code specified therein. The additional article must meet the following criteria: 1) the information is significant. According to the definition of Ukrainian Accounting Standards 1 (2013), significant information is information, the lack of which may affect the decisions of users of financial statements; 2) the evaluation of the article can be reliably determined.

That is, for enterprises engaged in socially responsible activities will be essential information that reveals the specifics of organic agricultural production and biological assets that are used.

To display information on biological assets in the form of № 5 "Notes to the annual financial statements" there are 3 sections: VIII "Inventories", XIV "Biological assets" and XV "Financial results from the initial recognition and sale of agricultural products and additional biological assets". However, they do not disclose complete information about the financial results of agricultural activities under Ukrainian Accounting Standards 30 “Biological Assets”, as they do not include indicators of the financial result from changes in the fair value of biological assets, and do not contain information about profits (losses) from the disposal of long-term biological assets measured at cost; do not contain other data that would reveal the process of biotransformation of biological assets.

Proposal to improve f. № 5 Notes to the financial statements (see Table 2) are relevant

to companies that position themselves as socially responsible and the disclosure of biological assets used in organic production can be a signal to stakeholders in establishing cooperation.

Table 2: Excerpt from Section VIII "Inventories" of the form № 5 "Notes to the financial statements" and proposals for its improvement

The name of the indicator	Line code	Book value at the end of the year	Revaluation for the year	
			increase in net realizable value	write-off
1	2	3	4	5
…	…	…	…	…
Agricultural materials	860			
- Current biological assets, including: *- used in organic production*	870			
…	….			

Note. The suggestions of the authors are highlighted in italics

If the company keeps records in accordance with the general rules of IFRS, it is necessary to disclose non-financial or calculated indicators in kind for each of the groups of biological assets of the enterprise and the volume of agricultural production, financial risk management strategy associated with agricultural activities.

5. Conclusions

Current trends in the development of society in the direction of achieving 17 goals of sustainable development contribute to changing the information needs of users of accounting data. In particular, after the Paris Agreement in 2015, more and more attention began to be paid to socially responsible business, guided not only by economic efficiency but also by social impact. Organic agriculture has the potential to address issues related to both economic and food security and contributes to the achievement of 2nd sustainable development goals "Solving the Problem of Hunger", 12th "Responsible Consumption" and 15th "Preservation of Terrestrial Ecosystems" sustainable development goals, which is justified in the article.

The proposals presented in the article on improving the process of displaying information on biological assets in the accounting of socially responsible activities of agricultural enterprises will enable consumers of agricultural products, community members, potential investors, and managers at various levels to obtain complete and reliable information on compliance with organic production legislation, the needs of modern society and more

effectively make socially responsible decisions.

Since the management, accounting and analytical problems faced by agricultural enterprises on the way to diversify their activities in the direction of socially responsible activities are broader than described in the article, the prospects for further research are to find ways to account for costs associated with the certification of organic products. On the one hand, this is necessary for the correct determination of the cost of production, and on the other - for the possibility of reimbursement of costs for certification of organic products. Because such certification is voluntary, farmers become less competitive compared to those who are not socially responsible. Therefore, more and more countries are considering reimbursing the cost of certification of organic products, and for this, it is necessary to have the appropriate accounting and analytical information.

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