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BIOLOGICAL ASSETS ON THE PROFITABILITY OF THE AGRICULTIRAL ORGANIZATION

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ABSTRACT

In the present situation we understand that the economic features of the field demand a specialised treatment when the participation of the agricultural and agro-food business in GDP is important. The objective of this paper was to assess and analyse their effects on the financial position and performance of the entities in respect of the incompatibility with the recognition and evaluation criteria on agricultural production, biological assets and agricultural products imposed by application of these standards in agricultural food companies. Determine if fair assessment difficulties are national or agriculture-specific for the industry of biological assets. Determine how valuers' contributions and problems connect to the difficulties of the industry. Because biological assets are owned by farming organisations whose worth is not completely fair, and the number of interviews is limited to 24. The data gathered during the interviews reveal the individual's problems and assessment factors and exposure to bioasset assessments.

INTRODUCTION

Agricultural production defines plants and animal species by their biological properties and needs a lengthy time to convert these resources in ultimate value. The best developments obtained by using current engineering machines and instruments may reduce the time required for the product transformation and lead to quick growth via the use of invention and research. Thereby, asset turnover and greater profit are accelerated. At the first acknowledgement and end of each reporting period, bioassets should be assessed by their fair

value at lower selling costs. Fair value minus expenses to sell at the moment of sale or at the time of harvest should be evaluated by agricultural goods derived from biological assets. An initial acquisition prices that do not have market-determined prices or are entirely inaccurate alternative fair value estimations are valued by their buy price – i.e., less accumulation of depreciation costs and expected selling expenses. A grouping of biological assets or agricultural goods based on key features such as age and quality may help the establishment of fair value of biological assets or agricultural goods. For price fixing the manufacturer picks the criteria which match to the market qualities. The economic method to justify investment in agricultural processes is necessary as a universal value of biological asset. In order to get competitive goods, the manufacturer takes judgments for the selection of investment capital in production, technology and innovation. Financial incentive spending supplied by the Ministry and endorsed by the State Government is of the utmost importance since it offers extra funding to agriculture that results in quicker growing and increasing agricultural produce.

In addition, the company's annual financial statements play a major role in recruiting new investors and raising the company's value. All decisions taken by shareholders and investors are based on the different considerations gathered from information included in the financial statements in order to ensure that the company's financial statements include all information in the same manner. Therefore, it is necessary for investors to contemplate investing to provide as much information as possible. If the information provided in the financial statements of the firm is more thorough, investors will have to invest more in the firm. One of the issues for decision-makers, both stakeholders and prospective investors, will be the presence of biological assets stated by the managers in their financial statement. Biological assets may alter growth, and even the corporation can develop biological assets. When a corporation discloses favourable data, such as biological assets, it indicates that the firm generally performs well [5]. The more information the firm exposes on its biological assets, the more prospective investors it will encourage to invest in these institutions and the firm will be able to enhance its worth.

The intensity of biological asset (Biological Asset Intensity) reflects the extent of the investor's share in biological assets. The biological asset intensity may also explain the expectation of cash obtained when the assets are sold. Previous study (Routes and Patricia, 2014) has shown that the impact on the revelation of biological assets is intensive. The company's size illustrates that the bigger the business is, the greater the requirements for information disclosure than the smaller ones. The corporation attempts to indicate that the corporation used the principles of effective management by providing more information (corporate governance).

LITERATURE REVIEW

Josep M. Argilés (2011) The convenience of transitioning from the historical cost (HC) to the concept of fair value (FV) is under heated discussion. The discussion and scholarly study normally include financial tools, but the mandate of IAS 41 for fair evaluation of biological assets takes them into the field of agriculture. This research carries out an empirical investigation using a sample of Spanish farms valuing biological assets at HC and an FV sample that does not identify any substantial variations in the assessment of future cash flows. But most experiments show better predictive potential for future profits under a fair assessment of biological assets, not due to variances in earnings volatility and profitability. The research also demonstrates that there are defective HC accounting processes for biological assets for farming, which indicates that the mostly small enterprises in the

agriculture sector of sophisticated western nations have few knowledge on this valuation procedure.

Retno Martanti Endah Lestari (2019) Living assets are the ones that undergo biological change and accounting is also part of the process. IAS 41 requires accounting, financial reporting and agricultural activity related disclosures. Often the owner and the owner manage their biological assets which have these distinctive traits by conflicts of interest. Corporation size is also a technique of improving the financial performance of a company that is also impacted by biological assets accounting. The purpose of this research is to analyse the adoption in Indonesia and Malaysia of biological assets accounting. The approach employed is explanatory research on secondary data sources, especially the financial statements of farmers in the two stock market nations. An empirical methodology is used to conduct testing. The findings demonstrated that the accounting consequences of biological assets in both nations were not different. Based on the test findings it can be stated that there were no consequences on financial performance both in Indonesia and Malaysia based on the fair value method with the intensity and amount of biological assets.

Roger L Burritt(2002) This research aims, via a case study, to tackle some of the main environmental assessment challenges, notably the methodologies used to quantify endangered and endangered animals. This survey examines the accounts of Earth Sanctuaries Ltd., a listed Australian conservation firm, during the seven financial reports from 1995 to 2001, both before and after the implementation of Australian Accounting Standard AASB 1037 — Self Generating and Regenerating Assets (SGARAs). These values are studied in particular in the light of the quality features of relevance and dependability of the conceptual framework. The study conclude that efforts to provide legitimacy to the environmental cause and questions raised about the substitute measurment base used to evaluate the assets are hampered by the present Commonwealth non-trade policy on wildlife and the consequent absence of an active and liquid trading market in this asset.

Javier Sorolla García (2019) The harmonisation of international accounting standards has altered agriculture's assessment model by adopting a fair value model and eliminating previous methodologies such as past costs. The purpose of these studies is to investigate both assessment models for biological assets as well as the honest and fair views of the financial accounts. Various empirical investigations show that transparent, accurate and confidential information is typically of fair value. Despite the traditional cost model, this approach has a clear preference for its application. This strategy improves information because it connects biological processing to biological assets. In addition, the fair value accounting approach enhances reporting and decision-making processes.

Iluta Arbidane (2018) Agricultural activities deal with plants and animals which make up the sector's biological assets. Biological assets are a hardly explored problem in Latvia from an accounting and evaluation point of view, and the subject of investigation is only generally seen in Latvian law. This creates complexity and ambiguity in the assessment and accounting of biological assets. Topic of the study: biological assets assessment and accounting. The purpose of this research is to research, analyse and provide answers to challenges relating to the accounting and assessment of biological assets in Latvia. One of the study goals is to examine the existing legal basis on which biological assets are assessed and accounted for under national law, evaluate compliance with international accounting norms and analyse the experience of other nations. Difficult challenges of biological asset appraisal and accounting in Latvia are outlined in study, potential ways to improve the quality of biological asset

accounting are established and the required legislative changes are put forth and methodological material revision is proposed.

Biological Assets Disclosure Has a Positive Effect on Company Value

Results of this research revealed a beneficial influence on corporate value of biological assets. The broader a firm's biological assets disclosure, the greater the worth of the firm. Managers see this bioasset as an internal business, since the presence of biological assets in a firm is a highly important news that will attract possible investors. Divulging biological assets is the action of a firm in disclosing biological asset information. Biological assets may translate bio-growth, production (reproductivity), degeneration and procreation processes into biological transformations and even these biological assets may provide business output. Revealing biological assets is of importance to internal corporations since it will attract prospective investors to participate in these firms if corporations comprehensively provide adequate information in their yearly financial statements. It is in keeping with the idea of signalling that the corporation sends a signal in the firm's financial statements, which encourages prospective investors to invest.

Investors require different considerations when investing their cash on the basis of the firm information. A broad divulgation of firms' biological assets will persuade investors to choose to spend their money in the firm, since this biological asset is an asset which may offer a future output of the firm. The findings of this study confirm studies that indicated that the wide disclosure had a favourable and important influence on business value.

Effect of Ownership Concentration on Firm Value

The concentration of ownership reveals how essential the ownership of a firm is to a certain party. The more the main shareholder concentration, the larger the concentration of the ownership of the firm in that group. The Agency theory says that the principal as the external party with the agent as the internal party that controls the operations and reporting of the firm, and also the major access to knowledge about the status of the firm have various interests. The principle, on the other hand, seeks a large return as capital owner of the firm. The more concentrated ownership will thus provide shareholders more authority to supervise management operations and to regulate the business activities in keeping with the company's goal.

In 1965 notion of entrenchment was established by Nelson Goodman. Entrenchment is a substantial shareholder action, protected by its control rights and encouraged to utilise its authority or expropriation. Entrenchment theory builds on the notion that the corporation will have the power of that party by owning shareholdings, which are particularly focused on any party. The majority shareholder will thus be empowered to manage the firm with their interests and may restrict financial transparency. When shareholders holding a little share, the public accountability is very crucial for the firm when the shareholdings are split among numerous shareholders. As the prospect of public ownership of shares is greater, disclosure of the corporation in its annual reporting is increasingly more widespread. But with highly concentrated ownership, the reverse problem happens. Highly focused ownership of shareholding will lower transparency in the financial statements of the firm since the most comprehensive controller in the firm will be the main shareholder.

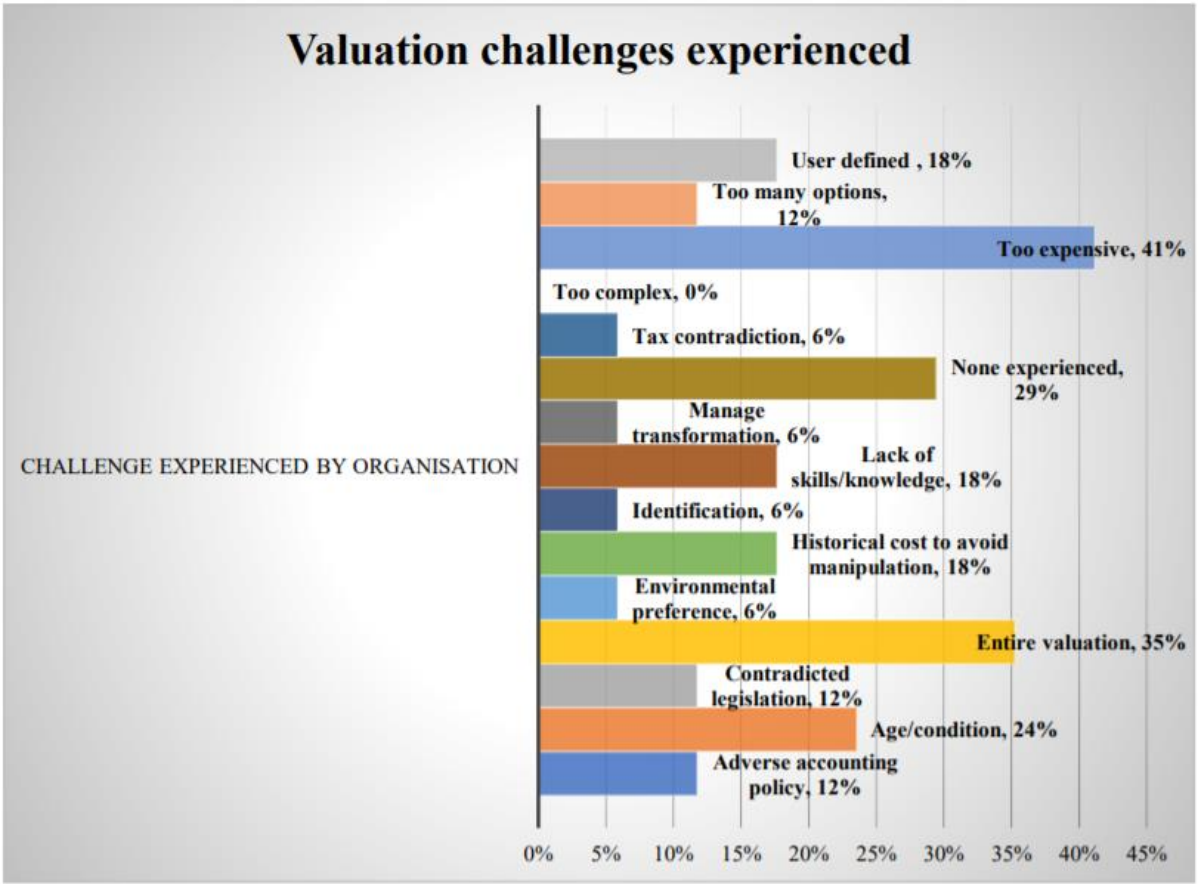
Furthermore, highly concentrated share ownership does not help supervise corporate operations since it is difficult for the audit committee to communicate and coordinate. This reduces the effectiveness of inspection and monitoring by shareholders to allow management

to provide greater information about biological assets. Optimal share ownership relies on numerous aspects, including concentration, structure of the market and so on. The appropriate proportion for shareholder participation in driving firm success is thus similarly hard. Many factors influence the company's value, making ownership concentration not significantly effective in controlling the company's activities and determining the amount of company value in companies with highly concentrated share ownership, such as in India.

Challenges experienced by the biological asset valuers

A study aimed at identifying the industrial obstacles facing biomarkers concludes that 29% of respondents had no assessment issues. Their success comes on the performance of monthly assessments and the participation of knowledgeable persons to establish an assessment team. The main assessment difficulty (41%) facing the respondents, as depicted in Figure 1, is the large cost-related problem. 35% of respondents are unable to comprehend the specified value methodology while 24% find age assessment and the condition of the biological assets difficult.

Figure 1: Challenges experienced to value biological assets



The users of their reports inform the valuers of the actual valuations (18%); fair value accounting which exposes the valuers to risk of manipulation (17%); the valuers' accounting policies provide for historic cost to be used to avoid manipulation as a whole (18%) and the absence of valuation expertise (18 percent). In evaluating the valuation issues of the frequency of the evaluations carried out, it was discovered that 67% of the valuers make the yearly valuation with 67% of the valuation criteria evaluated by average in Table 4. From assessed challenges in valuation, we have concluded that the frequent evaluations of bioassets

strengthen the qualifications and experience needed to support the valuation process and that the various stakeholders should provide input on all valuation factors to help financial calculations, to reduce the actual cost of valuation and to ensure that the printer's fair value is complied.

RESEARCH METHODOLOGY

Population and Sample

All farm enterprises registered on the Indonesian stock exchange are the population in this research. Based on a targeted sample, the sample was chosen from the group population. The period of research is 2015-2019.

Method of Analysis

Descriptive statistics offer an image or a description of the data as being associated to the average (mean), standard variance, variation, sample maximum and minimum (Ghazali, 2016). SPSS (Statistical Package for Social Science) version 23.0 is used to process this data. The traditional assumption test, which includes a normality test, tests whether the regression model or residual confounding variables have a normal distribution before evaluating the hypothesis. A one sample Kolmogorov-Smirnov test(KS) is used to evaluate the residual normality of the findings on the research data. If this results in a significance level> 0.05, then normal distribution of the findings occurs.

The following stage is the multi-collinearity test, to examine whether or not high or perfect correlations have occurred among the individual variables inside the regression model. The value of tolerance and variance factors shows multicollinearity (VIF). If VIF 0.10, there is no multi-linearity in the model (Ghazali, 2016). The test of automatic correlation seeks to determine whether there is no link between bullies' error in period t and bullies' error in period t1 in the lineary regression model (previous). In this investigation, the general thumb rule was detected. Singgih (2010) states that: 1) Positive autocorrelation is seen in figures DW below -2. 2) DW figures from -2 to +2, does not imply an autocorrelation. 3) DW over +2 indicates that the autocorrelation is negative.

Data Analysis

An examination of the categorization disclosure by kind of biological asset indicates that IAS 41 has not been universally implemented (Van Biljon, 2016). In order to offer users with decision enhancing information, IAS 41 (IASB 2018a) mandates an evaluation and distinguishing in reporting that the assets are present or non-current. As shown in Table 1, 18% of businesses, where 6% reported all operations as inventory and 12% reported them as property, plant and equipment, did not consider the IAAS 41 categorization standards.

Table 1: Percentage of researched organizations disclosing biological assets as either current or noncurrent per agricultural sector

Agricultural sector/ classification	"Biological assets" as a line item under Current assets	"Biological assets" as a line item under Non-Current assets	"Biological assets" split & disclosed as line items under both Current and Non-Current assets	Inventory reported (including biological assets)	Property, plant and equipment reported (including biological assets)	Total
Grain	6%	3%	6%	0%	6%	21%
Forestry	0%	3%	0%	0%	3%	6%
Fruit	0%	0%	12%	0%	0%	12%
Grapevines	0%	9%	0%	0%	0%	9%
Horticulture	0%	0%	3%	3%	0%	6%
Livestock	6%	0%	6%	0%	0%	12%
Poultry	6%	0%	3%	0%	0%	9%
Sugarcane	0%	6%	9%	0%	3%	18%
Vegetables	0%	3%	3%	3%	0%	9%
Total	**18%**	**24%**	**41%**	**6%**	**12%**	**100%**

The classification of the grapes as non-curring assets; and, with a clear distinction between current and non-current assets in fruit industry, the woods as non-current assets or as part of properties, plants or equipment, confirms that the reporting requirements of the IAS 41 for these agricultural sectors are considered. As Table 1 shows, in the other agriculture sectors there are no reporting consistencies. As consumers of financial reports analyse organisations' financial success and position in the evaluation of net value of their current and current liability assets, sector findings are skewed when they depend on information where the organisations' biological assets are not uniform. A evaluation of the capacity of an organisation to create income from current and non-current assets, as well as the efficiency and effectiveness of business activities with regard to inventories and sales, can deceive people depending on the results given.

The average value of farmer firms was 1,1240, hence the average farmer firm had a solid business value since the value of Tobin's q> 1 was 1. The default value deviance was 0.50899. PT London Sumatra Indonesia Plantation (LSIP) had the lowest corporate valuation in 2017, at 0.17. In 2016, PT Sawit Sumber Mas Sarana (SSMS) had the highest value of the firm, at 2,38.

Agricultural enterprises reported an average of 68,34 percent for their biological assets and a standard 0,05889 default. PT Eagle High Plantation in 2016 and 2017, PT Gozco Plantation in 2015, 2016 and 2017, PT London Sumatra Indonesia Plantation (LSIP) in 2015, 2016 and 2017 and PT Salim Ivomas Pratama in 2015 and 2016 and 2017 had the lowest biological asset disclosures. In the meanwhile, from 2015 to 2017, PT BISI International conducted the greatest biological asset disclosure with 78%. In agricultural enterprises the average ownership concentration was 49.14% and the default was 0,24755. PT Bakrie Sumatra had the lowest concentration of ownership in 2017, representing 4%. In 2015 and 2016, PT SMART Tbk had the greatest concentration of ownership, at 97%.

Table 2. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Company Value	48	0,17	2,38	1,1240	0,50899
Biological Assets Disclosure	48	0,60	0,78	0,6834	0,05889
Ownership Concentration	48	0,04	0,97	0,4914	0,24755
BAD_OC	48	0,03	0,70	0,3334	0,17091
Profitability	48	-0,44	0,15	0,0128	0,09193
Company Size	48	19,61	26,62	22,8949	1,28134
Leverage	48	-30,64	11,27	0,7893	4,92181

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The determination test coefficient is a test to evaluate if the variable depends on independent factors The test coefficient is (Ghozali, 2018). Table 3 shows the outcome of the test coefficient in data from India. The current ratio is the dependent variable, the independent factors are capital structure, intensity of biological assets and firm size.

Table 3. Coefficient of Determination Test (Adj R2) of Indian Companies

Model	R	R^2	Adj. R^2	Std. Error of the Estimate
1	0.598[a]	0.357	0.310	3.500120
a. Predictors: (Constant), DER, BIO, SIZE				
b. Dependent Variable: CR				

The results of the measurement coefficient on Indian data are shown in Table 3. The data shown in Table 4 reveals that CR's Adj R2 is 0.310 or 31.0%. That suggests that the independent variables of the BIO, SIZe, and DER represent the 31.0 percent variables of the CR values, while other factors outside of the analysed model explain the balance of the 69.0 percent.

The objective of the F-statistical test is to concurrently analyse the impact of the independent variable on the dependent variable. The results reveal a meaning value of 0.000 in data from India. The F-statistic test on India data is the outcome of Table 4. The table gives a F score of 7.589 and a meaning of 0.000. The dependent variable is the existing ratio and the separate factors are the debt to capital ratio, the intensity of biological assets and the firm size.

Table 4 Simultaneous Significance Test (F-statistic Test) on the data

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	278.911	3	92.970	7.589	0.000[b]
	Residual	502.284	41	12.251		
	Total	781.195	44			
a. Dependent Variable: CR						
b. Predictors: (Constant), DER, BIO, SIZE						

In relation to Table 4, a meaning level of 0.000 in the F-statistic test on CR is shown. This demonstrates that all independent factors impact the dependent variable concurrently. This result is made because F-statistic tests are less than 0.05.

Conclusion

The findings demonstrated that the intensity of biological assets did not affect financial performance, and financial performance was not affected by the size of the firm. The current laws on the assessment and accounting of biological assets in India thus fail to offer enough legislative provisions, clarity and comprehensibility in legislation. It would be useful to develop explanatory methodological guidelines for the accounting and assessment of the biologic assets or agricultural assets that explain in details the current principles of accounting and evaluation, taking into account research results and experiences of Lithuania and Estonia. Corporate size in India has a major impact on financial success. This is due to a variety of data from enterprises varying across small, medium and big enterprises. The hypothesis is consequently validated when tested by the highest standard deviation among the three nations. The size of organisations in both nations doesn't differ since minimum, average and maximum value are often the same to prevent the hypothesis from being tested. The current ratio in this research is part of the liquidity ratio as a proxy to finance performance. The liquidity ratio is, as already described, a ratio showing that companies are able to meet their liabilities or short-term obligations, particularly those that are owed. When a corporation is liquid, its short-term obligation must be deemed to be fulfillable. In contrast, the firm is deemed not to meet its short-term responsability by not taking into account the size of the firm, if a firm is illiquid.

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