IFRS for SMEs: What will the implementation of IFRS for SME bring for timber industry?

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Abstract

Bohušová, H., Valouch, P., Svoboda, P.: **IFRS for SMEs: What will the implementation of IFRS for SME bring for timber industry?**

At vero Agricultural activity and forestry are largely different from other activities that the entities perform in order to achieve profit. Unlike other business entities, agricultural produce is significantly dependent on natural climatic conditions, and therefore a particular specialization of agricultural produce depends on geographic location. Agricultural and forest producers use every form of business organization, from small farms to large publicly held corporations. Although most entrepreneurs working in agriculture and forestry are small and medium enterprises, the specifics of agriculture are significantly reflected in the financial reporting intended primarily for large corporations traded on the capital markets. There are designed specific procedures of recording in relation to the nature of biological assets and agricultural produce and ways of measurement in this paper. The nature of biological assets is considered as distinguishing criterion (consumable assets, bearer assets and consumable assets with long production cycle).

Key words

agricultural activity, IFRS for SMEs, biological assets, agricultural produce

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Acknowledgements

Introduction

Agriculture and forestry has still crucial importance for land use and management of natural resources in rural areas of the EU and as a platform for economic diversification in rural areas. According to the EC (2011) more than 56 % of the population in the 27 EU Member States lives in rural areas, which cover 91 % of the overall territory; as such, rural development is an important policy area. Especially forests are one of Europe's most important renewable resources and provide multiple benefits to society and the economy. According to the EC (2011), forests and other wooded land in the EU cover approximately 177 million ha (over 40 % of the EU territory), of which 130 million ha are available for wood supply. For example, there were 2 657 thousand ha of forests and wooded land in the Czech Republic, of which 2 330 thousand ha were available for wood supply in 2010. The forests provide wood and similar materials to be used for the manufacture of furniture, toys, instruments, containers and construction products, as a raw material for paper, and as a fuel. Wood is currently the most important renewable source of energy in the world.

Agricultural activity and forestry are largely different from other activities that the entities perform in order to achieve profit. Agricultural and timber producers use every form of business organization, from small farms to large publicly held corporations. According to the IASB (2008) most business organizations involved in agricultural activity and forestry are small, independent, cash and tax focused, family-operated business units, often perceived as not being required to produce general purpose financial statements. Aim of this paper is to review the possibilities of implementation of the provisions relating to agriculture and forestry in the frame of IFRS for SMEs into practice of entities concerned whose object is agricultural production and to recommend appropriate application in practice.

1   Methods and resources

The requirement for proposal of specific methodologies for the measurement of biological assets, biological transformation and agricultural production and the associated costs is based on the nature of IFRS for SMEs, which is focused mainly on presenting data on the financial position and performance of an entity in the form of statements.

The theoretical bases generally deal with the need of recording and reporting of biological assets, biological transformation and agricultural or timber production with regard to specifics of agriculture and forestry. This issue is now satisfactorily resolved for entities that are liable to report under full

IFRS and usually treatment in national GAAP[1], which are mostly destined for entities of SMEs type and their significant contribution to overall structure of enterprises[2], is inadequate. Given this fact the paper is focused on the potential implementation of the IFRS for SMEs, which significantly reflects the specifics of agricultural and forest reporting into EU legislation and also into selected countries.

In the next section the paper deals with specific provisions of Section 34 – Special Industries IFRS for SMEs and their applications in enterprises engaged in agricultural activities and forestry. The object of study is to assess the suitability of the fair value measurement for biological assets and agricultural and timber production (the IFRS for SMEs – Section 34 uses the term agricultural produce instead of agricultural production, furthermore will be used the term in accordance to this standard) in respect to the fundamental principles of the standard (the costs on obtaining information must be lower than its benefits and practical application must not unduly burden the entity). In addition there are designed ways of fair value determination in the case of forest assets. The Australian reporting experience is used as an example for possible implementation treatments of Section 34 of IFRS for SME in entities reporting of forest assets.

2   Theoretical background

IAS 41– Agriculture was issued in February 2001. The Standard prescribes the special accounting treatment for initial measurement of biological assets, agricultural produce at the point of harvest, special treatment for accounting for agricultural activity and for disclosure. This standard is designed for listed companies traded on registered capital markets, which also carry on agricultural activity. In the world there are a number of major companies[3] whose business is also agricultural produce, but

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[1] In the Czech Republic there is not, under the Czech accounting standards, specific regulation for reporting of agricultural activities. In France, the chart of accounts includes only accounts relating to agricultural production, in Great Britain there is no special regulation for the reporting of agricultural activity (expected by 2013, implementation of IFRS for SMEs as a national GAAP), in the U.S. theme 905 Agriculture, which does not contain standards, only guidelines, is included in frame of codification since 2008.

[2] According to http://ec.europad.eu/enterprise/policies/sme/index_cs.htm over 20 mil. of SMEs operates in the European Union currently – it represents 99% of all enterprises.

[3] Examples can be following, AACo (Australian Agricultural Co, Ltd). – beef cattle company listed on New York Stock Exchange (NYSE), Associated British Food – sugar cane plantation listed on London Stock Exchange (LSE), Chiquita Brands International – bananas and other agriculture produce – listed on NYSE, Christian Dior, SA – vienyards (listed on LSE, NYSE Euronext (Paris)), Del Monte Foods Company – fruits and vegetables (listed on NYSE), HJ. Heinz Company – seed and vegetables (listed on NYSE), LVMH (Luis Vuitton Moet Hennessy) vienyards – listed on LSE and NYSE Euronext, Mondi – forestry (listed on LSE), Pernod Ricard SA – vineyards (listed on NYSE Euronext), Plum Creek Timber Company – timber industry (listed on NYSE), Unilever – oil palm and tea plantations (listed on LSE), West Fraser Timber Co Ltd. – timber industry (listed on NYSE).

their total share in number of farms is insignificant. Most agricultural businesses are represented by small and micro enterprises (family farms), as demonstrates previous text. Due to the very specific features of agricultural production and the high proportion of SME-type enterprises engaged in agriculture and forestry, it is appropriate that also financial reporting systems designed for these businesses would reflect the specifics of agriculture and forestry.

According to McMahon (1998) the financial information of SMEs is utilised for evaluation the success of past decisions and in determining the present position. Sian and Roberts (2009) found out that tax authorities are the key users of SME financial statements. In their opinion, the contents and format of SME financial statements are influenced by the disclosure requirements of tax authorities, and not by accounting regulators.

Research made by Baker, Noonan (1995) and Demartini (2005) demonstrated, that SMEs are not a homogenous group and these entities should be differentiated into groups as medium sized entities, small entities and micro entities. In the research made by Kirsch and Meth (2007) SMEs were categorized in relation to their size and users in the following way:

- smaller SMEs. They are managed by their owner and they have banks as main user of their financial statements, and the financial statements have a verification role as well;
- "bigger" SMEs. They have usually external shareholders who demand information in a form of comparable financial statements and the financial statements have a verification role;
- big SMEs with primarily external shareholders. They are dependent on financial information with predictive value for making decisions.

Kirsch and Meth (2007) in respect to these differing needs of users conclude that restriction should have been made in the scope of IFRS for SME.

Deaconu, Popa,Buiga, Fulop (2009) do not recommend an unique standard for SMEs for all accounting systems (e.g. IASB) because of the cultural diversity that has stronger impact within the SMEs that usually have no international links and no strong need for a common language (we have a different opinion when talking about big multinational companies). They also support this by the results obtained from the questionnaire processing in the case of Romania.

Recommendation 2003/361/EC regarding the SME definition which was adopted in May 2003 also categorized SMEs into three groups:

- medium-sized enterprises with less than 250 employees and the turnover below € 50 million and/or balance below € 43 million;

- small enterprises with more than 50 people and the turnover below € 10 million and/or balance below € 10 million;

- micro enterprises with less than 10 employees and the turnover below € 2 million and/or balance below € 2 million.

Each group of SMEs category differs in many ways. There is the most significant difference in the field of regulation of financial reporting in many countries. SMEs have the option of filling abbreviated reports with reduced level of disclosure.

Different information needs of financial statements users of individual groups of SMEs cannot meet one single financial reporting system designed for the whole this heterogeneous group. Based on the identification of barriers in the business in the European single market, the IASB has been entrusted with the preparation of a harmonized system of financial reporting for SMEs. The result of five-year effort was issuing of IFRS for SMEs, which, however, does not respect the heterogeneity of the group of companies known as SMEs. The IFRS for SMEs is a self-contained standard of about 230 pages tailored for the needs and capabilities of smaller businesses. The IFRS for SMEs is separate from full IFRSs and is therefore available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is also for each jurisdiction to determine which entities should use the standard. It is built on an IFRS foundation. Many of the principles in full IFRSs for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, some accounting policies options in full IFRSs are not allowed because a more simplified method is available to SMEs and the number of required disclosures has been significantly reduced. The IFRS for SMEs does not address following topics covered in full IFRS:

- Earnings per share;
- Interim financial reporting;
- Segment reporting;
- Special accounting for assets held for sale.

The IFRS for SME is aimed at millions of companies, which represent over 99% of all companies all over the world. There are over 25 million private sector enterprises in Europe, over 20 million in the USA. 66 jurisdictions have already IFRS for SME adopted or stated a plan to adopt (Bohušová, 2011).

The definition of SMEs in IFRS for SMEs does not include quantified size criteria for SMEs determination and do not differentiate among medium, small and micro entities. It is not feasible to develop quantified tests that would be applicable and long-lasting in all countries which could use this standard. In deciding which entities should be required or permitted to use the IFRS for SMEs, jurisdiction may prescribe quantified size criteria in each particular country[4]. The IASB approach focuses on "the typical SME" with about 50 employees. It is a quantified size test for defining SME but, rather, to help it decide kind of transactions, events and conditions that should be explicitly addressed in the IFRS for SMEs. There could arise any problem, because IFRS for SMEs could not be suitable for all kinds of entities in the SMEs spectrum, especially for very small entities (micro entities). This kind of entities prepares financial statements especially for taxation purposes. The close linkage between the tax and accounting regimes in several Member States would also result in the preparation of an additional set of accounts. Under these conditions the three tiered reporting framework as shown in the table could be suggested. Approaches of the application in the UK, Ireland and South Africa show in favor of this proposal. The Accounting Standards Board (ASB) in the UK is presently consulting on a new three tier reporting framework to replace current UK GAAP (O´Keeffe, Hackett, 2011). The results of the field testing of ED of IFRS for SME provided evidence of the suitability of the proposed IFRS for SMEs help to identify any aspects which may need modification. By Stainbank (2008) SAICA embarked on a questionnaire survey addressed to both owners of small and micro entities and small practitioners to assess the need for a South African Micro GAAP framework.

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[4] For example: Industry Canada (available on http://sbinfocanada.about.com/od/businessinfo/g/SME.htm) uses a definition based on the number of employees. Goods-producing firms are considered "small" if they have fewer than 100 employees, while for service-producing firms the cut-off point is seen as 50 employees. Above that size, and up to 499 employees, a firm is considered medium-sized. The term "SME" is used to refer to all businesses with fewer than 500 employees, while firms with 500 or more employees are classified as "large" businesses.

The Companies Act 2006 in UK (available on http://www.imolin.org/doc/amlid/UK_Companies_Act_2006.pdf) defines a SME for the purpose of accounting requirements. According to this a small company is one that has a turnover of not more than £6.5 million, a balance sheet total of not more than £3.26 million and not more than 50 employees. A medium-sized company has a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees. In Japan, capital or total amount of investment together with the workforce is used to define SMEs, but even though the same criteria are used, thresholds that apply to each element not only vary by sector but also by criteria (Lindner, 2005 – available on http://unstats.un.org/unsd/industry/meetings/eg2005/AC105-22.PDF). The US has chosen to set size standards for each individual NAICS coded industry. This variation is intended to better reflect industry differences(less than 500 employees for for most manufacturing and mining industries (U.S. Small Business Administration, 2002 – available on http://www.sba.gov). Germany has limit of 255 employees (HGB – available on http://www.gesetze-im-internet.de/hgb/BJNR002190897.html).

3   Results

3.1   Adoption of IFRS for SME within the EU

In 2010, the European Commission decided to seek the opinion of the EU financial statements users on the IFRS for SME. In spite of some resistance, there is a majority support for Europe's plan to adopt the new standard, which is currently scheduled to be introduced for small and medium companies. There are the most significant proponents of IFRS for SME implementation. They are the United Kingdom and Ireland (ACCA, 2011), (Burke, Quigley, Regan, 2011).

On the other hand, there is some reluctance to adopt IFRS from SME within Europe[5]. Reluctance in Europe owes much to objections from France and Germany. At the EU's headquarters in Brussels, debate revolves around whether to make the new rules voluntary or mandatory. Germany and France both rely on their accounting systems for tax collection, which is fuelling reluctance to support the standards.

The adoption and successful implementation of the IFRS for SMEs is burdened by, amongst other possible factors, not only a lack of formalities but also the variety of definitions and different classification for SMEs by different countries. As a result the comparability of SMEs is not always possible.

In some countries the possible effects or issues associated to IFRS for SMEs implementation were empirically studied, by regulatory bodies, accountancy firms, professional bodies or researchers. For example, a field-testing conducted in France by Mazars (2007) concludes that the application of the IFRS for SMEs in France is highly accepted. Another filed-testing done in France by the Conseil National de la Comptabilite concludes that French SMEs do not need this standard. The contrasting results are explained through the population's dimension and the lack of representativeness (the results are not generalisable). This is only one case which underlines the need for a substantiated strategy for IFRS for SMEs implementation on solid empirical studies (Albu, Albu, Fekete, 2010).

In most of EU-countries the adoption of IFRS for SMEs has not taken place yet. There were performed analyses of financial reporting system, which are used in selected countries with a focus on reporting of biological assets and agricultural produce with an analysis of potential impacts on

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[5] According to Christodoulou (2010) Pacter´s survey also revealed reluctance from a number of nations. Joining France and Germany on the list was Netherlands, Poland, Malta, Slovenia and Switzerland (http://www.accountancyage.com/aa/news/1775891/sme-standards-set-adoption-globe).

their reporting after the potential implementation of IFRS for SMEs. From the analysis of financial reporting systems undertaken in selected countries (Elad, Herbohn, 2011), results that financial reporting systems used for small and medium-sized businesses in the U.S., Great Britain, France or the Czech Republic do not reflect significantly the specifics of agricultural produce. The only country which puts emphasis on the characteristics of agriculture, in its national financial reporting system, has been Australia since 1998[6].

At present also IFRS for SMEs reacts to the specifics of agriculture. IFRS for SMEs could replace the national systems of financial reporting for small and medium companies in future. In IFRS for SMEs there is a section devoted to agriculture, Section 34 – Specialised Activities. Treatments for recognition, recording and reporting of biological assets, biological transformation and agricultural produce use analogous approaches as in IAS 41 in respect of the fundamental requirements for financial reporting under IFRS for SMEs (costs may not exceed the benefit from obtained information and efforts invested in order to obtain such information should not be excessive).

IFRS for SMEs defines the basic concepts in relation to agricultural activities, which are:

- Biological asset: a living animal or plant;

- Agricultural produce: the harvested product of biological assets[7].

IFRS does not require the fair value less costs to sell in the same extent as IAS 41 for SMEs evaluation in order to methodological procedures in relation to agriculture would reflect above mentioned requirements. In accordance with section 34, an entity involved in agricultural activity measures biological assets at fair value less cost to sell where such fair value is readily determinable without undue cost or effort. Where fair value cannot be determined without undue cost or effort, the entity measures such assets at cost less any accumulated depreciation and any accumulated impairment losses.

The agricultural produce harvested from biological assets is measured at fair value less estimated costs to sell at the point of harvest. Increases and decreases in fair value are reported as under IAS 41. Gains or losses on initial recognition and from change in fair value are recognized in profit or loss of the period[8].

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[6] AASB 1037 SGARAs
[7] IFRS for SMEs Glossary
[8] IFRS for SMEs 34 paras 4–6, 8–9

IFRS for SME in Section 34.2 (a) requires using fair value in measurement of biological assets. An entity using this IFRS for SME that is engaged in agricultural activity shall determine its accounting policy for each class of its biological assets. The entity shall use the fair value model for those biological assets for which fair value is readily determinable without undue cost or effort and the cost model for all other biological assets.

In determining fair value, an entity shall consider by IFRS for SME the following:

(a)   If an active market exists for a biological asset or agricultural produce in its present location and condition, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an entity has access to different active markets, the entity shall use the price existing in the market that it expects to use.

(b)   If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

(i)   the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period;

(ii)   market prices for similar assets with adjustment to reflect differences; and

(iii)   sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

(c)   In some cases, the information sources listed in (a) or (b) may suggest different conclusions as to the fair value of a biological asset or agricultural produce. An entity considers the reasons for those differences in order to achieve the most reliable estimation of fair value within a relatively narrow range of reasonable estimates.

(d)   In some circumstances, fair value may be readily determinable without undue cost or effort even though market determined prices or values are not available for a biological asset in its present condition. An entity shall consider whether the present value of expected net cash flows from the asset discounted at a current market determined rate results in a reliable measure of fair value.

The main reasons for departure from the historical cost to fair value could be found in low information capacity of historical costs and in distribution of higher profit to owners due to undervaluation of assets. In the case of agriculture it could be considered on the contrary. Users

were skeptical to lot of information, as for use of fair value in relation to agriculture in comments to the Exposure Draft of IAS 41 – Agriculture, which is based on the similar principles. Fair value measurement was considered to be too academic, and to be an inappropriate method of measurement for biological assets (Herbohn, 2006). Booth and Walker (2003) were focusing on measurement of biological assets in viticulture in Australia and they stressed practical difficulties in valuating biological assets at fair value separately from the land on which they are located.

Entities are required to use the fair value through profit or loss model only when fair value is readily determinable without undue cost or effort. In other case SMEs should follow the cost-depreciation-impairment model.

3.2 Initial recognition of biological assets

Biological assets are measured at the fair value less cost to sell for the initial recognition. A biological assets shall be measured at its cost only on initial recognition for biological assets for which market-determined prices or value are not available and alternative estimates of fair value are unreliable. The initial losses usually arise. The purchase costs of biological asset is often higher than their fair value less cost to sell, transaction expenses create a loss. In case that biological assets determined for biological transformation are purchased, there is a gain or loss on remeasurement to fair value less cost to sell. In practice it is usually the initial losses, as the fair value is reduced by estimated cost of sales and assets entering into the process of biological transformation are usually purchased at a price approaching to their fair value.

3.3 Measurement after recognition

A lot of subsequent costs relating to agricultural activity are incurred during the biological transformation process. They could include planting, weeding, irrigation, feeding, harvesting or slaughtering costs. Some of these costs are capitalized under many national GAAPs, especially those relating to the development of immature plants or livestock up to productive stage. The other expenditures are expenses in the period when incurred. IFRS for SME does not prescribe any treatment of subsequent costs on biological assets presenting. It is up to management judgment to determine the way of their recording, or which costs are suitable for capitalization. There are different ways of recording of biological assets and agricultural produce in accordance with IFRS for SMEs. It can be assumed that in a particular country the actual recording of process of biological transformation will be significantly influenced by the used methods of recording under a national GAAP, such as in the Czech Republic there is used a capitalization method of costs incurred into the costs of agricultural assets and agricultural produce.

There are two main groups of biological assets: consumable biological assets, which are harvested as agricultural produce (livestock for the production of meat, livestock held for sale, crops as maize or wheat, trees grown for timber) and bearer biological assets which are biological assets other than consumable biological assets (livestock for milk production, grape vines, fruit trees). Assets in this group are not agricultural produce, but they are self-regenerating.

3.4   Consumable biological assets with long production cycle

There is a major problem – how the IFRS for SME section 34 should be applied to forest assets. Fair value estimates in the absence of active markets for immature plantations are based on a great deal of subjectivity. Despite the fact, that the reported value of standing timber should reflect FVLCS, standing timber is connected with land. Land, as distinct from the trees growing on the land, is accounted for under section 17 – Property, Plant and Equipment of IFRS for SMEs. Section 34 allows different methods in determining the fair value estimate: market value is preferred but if reliable market-based prices are not available, fair value is the present value of expected net cash flows from the asset discounted at a current market rate (the "discounted cash flows or DCF" method). In some situations historical cost is an allowed treatment. A key conclusion of PWC study (2009) is that few of the studied companies have used market-based prices for standing timber. Net present value arrived at a DCF-modelling is by far the most common method of determining fair value by business entities reporting under full IFRS. The main reason provided for using discounted cash flow methods is the lack of active markets for large plots of forest land, implying a lack of reliable quoted market prices for standing timber. Some companies have stated that newly planted trees are carried at cost, which is deemed to be an indicator of their fair value.

Similar study conducted by Herbohn, Herbohn (2006) in Australia was concerning the valuation methods applied to timber assets. The study revealed that the majority of the reporting entities (i.e. 12 out of 13) valued timber assets at fair values based on amounts other than market prices observed in active and liquid markets. There were three measurement methods used. Eight out of 13 companies used a discounted cash flow methodology. Two entities estimated fair value as the net realizable value of timber assets. Only one company valued timber assets at fair value observed in active and liquid markets. There was not any consistency in the disclosure of any significant assumptions necessary to determine fair values. The study concluded that the determination of fair value for timber assets is likely to be subjective which creates the potential for manipulation. According to the research made by Grege-Staltmane (2010) land value and standing timber value should be recorded separately and standing timber should be estimated at its fair value. On the other hand, it is emphasized that markets for standing timber are limited in comparison with the total

volume of standing forest in the world and it is practically impossible to find two same forest properties

Some problems could be caused by application of the requirement of IFRS for SME 34.7 concerning the inclusion of unrealized gains or losses arising changes in fair value of biological assets measured at reporting date. In case of biological assets with longer production cycles such as forests, the recognition of profits that are not realized for several years may also lead to unrealistic expectations.

Argiles, Slof (2001) and Elad (2004) concluded that the contribution of methodology of agriculture reporting under IFRS is mainly conceptual and requires additional tools for implementation in practice, like some form of accounting plan. Similar guideline concerning the agriculture and forestry should be prepared for SMEs as well.

Looking closer at the Czech Republic, the problem of valuation of consumable biological assets with long production cycle according to the IFRS for SMEs will become a serious problem in very near future. Currently, there is no large company in the Czech Republic which would have to report its results in compliance with the IAS 41. The largest forest management organization in the Czech Republic is Lesy CR, a state-owned company, which due to its legal form has no obligation to report in compliance with IFRS. However, we can find many small and medium enterprises whose assets include forests and these represent the entities which potentially will have to report these assets in compliance with IFRS for SMEs. If the IFRS for SMEs is implemented, these entities will have to accept measures to be able to report according to the methods described in the IFRS for SMEs. As the IFRS for SMEs allows several possible methods for measurement of forests, the essential issue the Czech SMEs will have to solve, is the establishment of the measurement basis which will provide the most accurate and reliable results. At present, these enterprises use Czech accounting standards for their accounting and reporting and thus we can assume that their awareness of IFRS for SMEs requirements is negligible. Therefore, we intend to conduct a survey among the potential users of the IFRS for SMEs to ascertain to what degree these entities are aware of the Standard's requirements for reporting assets like forests and also to find out which of the possible measurement bases they would be able and economically willing to use for reporting these assets in their financial statements. The survey would most probably be conducted in the form of controlled interviews with representatives of these enterprises and forestry experts using questionnaires with questions concerning the above mentioned troublesome areas.

Considering the section 34 and the defined possible ways to determine the fair value, we can already assume that this will undoubtedly cause many problems to Czech SMEs. A hindrance to the first

option – to determine the fair value if an active market exists for a biological asset using the quoted price in that market – will be the fact that the timber market in the Czech Republic is relatively narrow. Practically, the only organized market where timber is currently traded in the CR is the Czech Moravian Commodity Exchange Kladno. The advantage of this way of fair value determination is its minimum cost and the simplicity; however, only selected and standardized types of timber are traded at this public market, which does not allow for a determination of the fair value of all types of forests. If an active market does not exist, the fair value can be determined based on the most recent market transaction price provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period. This seems to be the best approach if the concerned timber has been traded recently and thus the market price is known. However, this does not remove the problem of the timber which was traded long time ago and we can hardly assume no change in economic circumstances has occurred or timber which has not been traded at all and the price cannot be determined this way. Using the market price for similar assets with adjustment to reflect the differences is a relatively demanding procedure as it is necessary to examine the most similar asset continuously, to know its market prices and to give reasons for the adjustments in the form of differences. Also the use of sector benchmarks such as the value of an orchard expressed per export tray or bushel will not be possible in some cases without undue cost and effort on the side of the SME. An advantage of this way of fair value determination is doubtlessly the fact that the fair value is determined based on the individual and internal conditions of the specific enterprise, its ability to negotiate a specific sale price with customers and thus also the opportunity to use an active trade policy to affect the fair value. On the other hand, a disadvantage might be the substantial economic and administrative load imposed on the enterprise which could, especially in the case of less common products, exceed the undue cost and effort mentioned in the Standard, in which case the enterprise is entitled to use the purchase price model. If the market-determined price or value does not exist, the Standard allows determining the fair value using the present value of expected net cash flows from the asset discounted at a current market-determined rate. Primarily in the case of small enterprises, we can assume that this way of fair value determination might lead to a distortion in the fair value of the pertinent assets in consequence of overvalued net cash flows or a choice of an inadequate discount rate. Considering the general effort of small and medium enterprises to minimize administrative load, we can presume that they will continue to prefer the purchase price model, as should also be confirmed by our survey. Another significant issue which has not found a satisfactory solution is the issue of the measurement of forest stands during their growth. Then it is important for the users of financial statements to know about the gradual increase in the value of forest stands after they are planted and during their relatively long growth. Moreover, forest management is related to quite high expenses on forest planting,

treatment, etc. The question remains how and whether these expenses should be reflected in the value of wood mass; further, there is the issue of the measurement of wood mass increment during its growth at the time when there are no direct expenses any more, however, the value of these assets undoubtedly increases. How can this value be determined? And should it be reflected in the entity's balance sheet or should this fact be rather published within the entity's notes? The planned survey will endeavor to answer these questions as well.

Conclusions

The fact that the IFRS for SMEs was prepared as a tool to harmonize financial reporting of SMEs type can be appreciated. It is important that the IASB has found farming so different from other activities performed in order to achieve profit, that treatments for recognition, recording and reporting of biological assets, biological transformation and agricultural produce would reflect the specifics of this activity. The IFRS for SMEs devoted to agriculture a section 34 – Special industries. The main objective of this section is the application of special treatments that reflect the specificities of agriculture, while allowing easy and cost-effective application in practice.

Application of the IFRS for SMEs can be largely influenced by national GAAP and therefore problems with the application of standards can vary in the individual countries. The authors focused on the application of IFRS for SMEs in agriculture, mainly because there have not been extensive experience with application of full IFRS (IAS 41) in agriculture. From the limited number of previously performed analysis (Argilés, Slof, 2001), (Elad, Herbohn, 2011), (Booth, Walker, 2003) and others results that the application of IAS 41 in entities engaged in agricultural activity yielded significant differences in the financial statements, significant annual changes in the value of assets, significant annual changes in the value of profits due to transition to a different way of reporting of biological assets, biological transformation and agricultural produce. These differences were mainly caused by a change in methodology of measurement – the transition to fair value, since in all countries that were examined, the measurement was based on historical costs. The IFRS for SMEs is a requirement for fair value measurement that is more liberal and major criteria for deciding whether to use fair value measurement for biological assets, biological transformation and agricultural produce, are considered the costs of obtaining information and benefits of relevant information. For this reason one can induce that in areas where fair value is readily ascertainable, the entity will move to fair value, in other cases will continue to use historical cost as a valuation basis.

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