The Effect of Existing Laws on Fair Value Implementation in the Agricultural Sector of Ghana

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***ABSTRACT:** In 2007, Ghana adopted International Financial Reporting Standards (IFRSs) in place of Ghana National Accounting Standards (GNAS). Unlike companies that are not listed, all listed companies were obliged to prepare their financial statements in compliance with IFRSs. This study investigated the effect of existing laws on fair value implementation in the agricultural sector in Ghana. The study revealed that regulatory bodies can promote the implementation of IFRS 13 in the agricultural sector by educating the preparers of financial statements in the agricultural farms on IFRS. It also revealed that 53% of the respondents are undecided whether regulatory bodies carried out any activity in the past to support effective implementation of the IFRS 13 agriculture. 60% of the respondents agreed that there is lack of methodological relationship between existing local laws and IFRS. Again, 40% of the respondents were of the view that regulatory bodies can promote the implementation of IFRS 13 in the agricultural sector by educating preparers of financial statements in the agricultural farms on IFRS. Also, 80% of the respondents did not respond as to whether the office of the regulatory bodies has initiated plans to implement IFRS 13 in the agricultural sector.*

***KEYWORDS:** Fair value, IFRS, Agricultural Activity, Biological assets*

I. INTRODUCTION

The agricultural sector is the most important sector in the Ghanaian economy in terms of its share of Gross Domestic Product (GDP), employment and foreign exchange earnings. For example, the agricultural sector employs about 55 per cent of the labour force, and contributes about 35 per cent to GDP (Ghana Statistical Service, 2012a). The agricultural sector also contributes to almost 45 per cent of all export earnings and 12 per cent of tax revenue of Ghana. In addition, the agricultural sector is an important source of raw materials for manufacturing, and finally the agriculturally dependent rural households, which form about 80 per cent of the population (Ministry of Trade and Industry, 2009a). The agricultural sector in Ghana is made up of five sub-sectors namely, crops other than cocoa (63 per cent of Agricultural GDP), cocoa (14 per cent), livestock (5 per cent), fisheries (7 per cent) and forestry (11 per cent) (Ministry of Trade and Industry, 2009b).

A. Fair value accounting

International Accounting Standard (IAS) 41 Agriculture and International Financial Reporting Standard (IFRS) 13 Fair Value Measurement were issued in April 2012 by International Accounting Standard Board (IASB, 2012a). *IFRS 13* was intended to commence on 1st January 2013 in prescribing accounting standards for agricultural activity – the management of the biological transformation of biological assets (living plants and animals) into agricultural produce. A key reform introduced in IAS 41 is the requirement of the fair valuation of biological assets, "from initial recognition up to the point of harvest" (IASB, 2012b).

However, in April 2012, International Accounting Standards Board (IASB) issued an exposure draft No. 13 Fair Value Measurement. IFRS 13 provides a principles-based framework for measuring fair value in IFRS. This is based on a number of key concepts including unit of account; exit price; valuation premise; highest and best use; principal market; market participant assumptions and the fair value hierarchy.
The definition of fair value in IFRS 13 (IASB, 2012b) is based on an exit price notion, which incorporates the following key concepts:
• Fair value is the price to sell an asset or transfer a liability, and therefore represents an exit price, not an entry price.

• The exit price for an asset or liability is conceptually different from its transaction price (an entry price). While exit and entry price may be identical in many situations, the transaction price is not presumed to represent the fair value of an asset or liability on its initial recognition.

• Fair value is an exit price in the principal market i.e., the market with the highest volume and level of activity. In the absence of a principal market, it is assumed that the transaction would occur in the most advantageous market. This is the market that would maximise the amount that would be received to sell an asset or minimise the amount that would be paid to transfer a liability, taking into consideration transport and transaction costs. In either case, the entity must have access to the market on the measurement date.

The principles in IFRS 13 are intended to increase the consistency and comparability of fair value estimates in financial reporting (IASB, 2012b). The standard applies to all fair value measurements, when fair value is required or permitted by IFRS, with some limited exceptions. IFRS 13 also applies to measurements, such as fair value less costs to sell, that are based on fair value. However, it does not apply to measurement bases that are similar to, but are not intended to represent, fair value, such as value in use. IFRS 13 establishes a single definition of fair value for financial reporting purposes (IASB, 2012b). IFRS 13 provides a framework for applying this definition, and requires numerous disclosures about the use of fair value measurements in the financial statements. The requirements incorporate financial theory and valuation techniques, but are focused solely on how these concepts are to be applied when determining fair value for financial reporting purposes. IFRS 13 does not address the issue of *what* to measure at fair value. The IASB separately considers issues surrounding *what* to measure at fair value and *when* to measure items at fair value on a project-by-project basis. Other IFRSs determine what items must be measured at fair value, and when. IFRS 13 addresses *how* to measure fair value. The principles in IFRS 13 will provide the IASB with a consistent definition for determining whether fair value is the appropriate measurement basis to be used in any given future project.

Although globalisation will necessitate the international harmonisation of accounting practices, it is possible that fair value accounting might reduce the comparability of financial statements. In the absence of an actual transaction in an active market the exposure draft on fair value measurements requires the use of a “hypothetical transaction in the most unavailability of accurate market data and the volatility of sentiment-driven market prices may complicate the application of the “most advantageous market” (IASB, 2009:7). Elad (2004:632) states that in the absence of an active market, “the use of subjective judgments by practitioners in establishing estimates of fair value, such as the market price for similar assets, or net present values, might result in different treatments that hamper comparability and harmonisation.” The requirement, in terms of IASB (2009:2354), that changes in fair value be recognised directly in the statement of comprehensive income might also elicit a different reaction as was noted by Ernst &Young in the following somewhat unorthodox implication of the standard in their comment letter that “it is counterintuitive that an agricultural enterprise could literally sell nothing and still report earnings” (IASC, 2000: 229). IAS 41 requires companies, irrespective of whether they are in the plantation, livestock or timber industries, to fair value their biological assets at each balance sheet date (as opposed to the previous practice of booking at historical values). Nonetheless, the implementation of fair value reporting by small and medium-sized entities is claimed to result in various challenges for both the user and for those preparing financial statements (Maina, 2010).

Dowling and Godfrey (2001) investigated the measurement methods disclosed in the 1999 annual reports of Australian firms which were in possession of self-generating and regenerating assets and concluded that, although Australian Accounting Standards Board (AASB) 1037 prescribed the net market value approach, a variety of measurement methods had been used, with historic cost being the most preferred method. Similarly, research carried out in Europe indicates a limited application of fair value and noted particularly that “where companies are given an option as to whether to use cost or a fair value model, they typically choose a cost model” (ICAEW, 2007:12).

B. Problem statement

Through the examination of financial statements and interviewing some of the accountants who prepare financial reports for entities in the agricultural sector in Ghana, it was ascertained that almost all the entities in the agricultural sector have not implemented the accounting standards (IAS 41 & IFRS 13) for reporting of biological assets. IAS 41or IFRS 13 has not been implemented on adoption as a standardised basis to account for biological assets in the agricultural sector in Ghana. As it stands now, the financial information of entities in the agricultural sector in Ghana cannot be compared with international competitors because they are not prepared on a homogeneous basis. In recent development, Nana Sackey, Deloitte Country Managing Partner, stated in a seminar organised by Deloitte to engage entities in global financial reporting standards in Kumasi on 11 February 2013 that entities in Ghana should clearly identify and deal with the challenges of adopting and implementing the new set of standards for the preparation of financial statements (Domfeh, 2013). He recognised the fact that entities that will adopt and implement IFRS would face some challenges. As Ghana's most important economic sector employing more than half the population, agricultural accounting in Ghana is an unexploited area to boost investment opportunities. It is clearly believed that the regulatory bodies of IFRS in Ghana will face some challenges in the implementation and regulation of IAS 41. On the other hand, Ghana National Accounting Standard and the Ghana Companies Code 1963 (Act 179), which serve as a yardstick for the preparation and treatment of financial transactions in the financial statements did not provide guidance for the treatment of biological assets in the financial reports. However, now that Ghana has made mandatory and optional adoption of IFRS/ IAS for listed and non-listed entities operating in the agricultural sector, what would the implementation of IAS 41 be? Therefore, this study intends to ascertain the implementation and regulation challenges of fair value reporting of biological assets faced by entities in the agricultural sector of Ghana. The aim of this investigation is to ascertain possible implementation and regulation challenges in order to come up with implementation and regulation guidance of IAS 41. Implementation and regulation guidance is of particular importance when international standards are applied for the first time. The challenges were examined by taking into consideration IAS 41 and IFRS 13.

This study sought to answer the following research question in respect of fair value implementation and regulation challenges of IAS 41/IFRS 13 in the agricultural sector:

What influence do existing Ghanaian laws have on the transition process to IFRS 13?

C. Importance of the study

The study will show the viability of implementing IAS 41 in the agricultural sector. The study will again portray how these challenges affect the quality of financial reporting. The study will also propose possible improvements in order to improve comparability, relevance and reliability of financial statements. The recommendation will be in line with the international reporting standards, suitable measures for simplifying the financial reporting and for harmonisation. This might help to triumph over such challenges in a cost- effective way. In addition, this study will present an orientation for those who prepare the financial statements for small and medium-sized entities in the agricultural sector. The study would also create a room for reduction in the cost of doing business across boundaries by eliminating the need for additional information from Ghanaian companies; easier regulation of financial information in the country; and enhance knowledge of global financial reporting standards in tertiary institutions. This study will be important to the Ghanaian economy as the IFRS would enhance transparency in the conduct of business in the private and public sectors of the economy especially in the agricultural sector. Other developing nations which are yet to adopt the policy may also find this study important in spite of expertise, technology and environmental challenges existing in the circumstance, than in more advanced nations as IFRS is a globalised and converged policy across the globe. The study will also discover information gaps and propose areas for further studies.

D. Objectives of the study

The main objective of the study was to assess the effect of existing laws on the fair value implementation in the agricultural sector in Ghana. Nowadays, the relevance of fair value in financial reporting is gaining impetus and recent debates are moving in the trend of full fair value reporting. Fair value accounting in the agricultural sector in Ghana is a new concept because the previous GNAS did not make provision for the treatment of biological assets.

E. Scope of the study

There are many SMEs scattered across Ghana. This study was limited to a selected number of regulatory bodies in the Ashanti Region of Ghana. Regulatory bodies with respect to financial reporting in Ghana like the Institute of Chartered Accountants Ghana (ICAG), Ghana Stock Exchange (GSE), Chartered Accountants in audit firms, Stock Exchange Commission (SEC), Ghana Revenue Authority (GRA) and Ghana Audit Service (GAS) were considered.

II. RESEARCH METHODOLOGY

This study involved limited empirical research. The empirical research involved field research to collect data from regulatory bodies of financial reporting in Ghana. A purposive sampling technique was used in the administering of the questionnaires.

A. Target Population

The target population of this study comprised of all regulatory bodies with respect to financial reporting in Ghana like the Institute of Chartered Accountants Ghana (ICAG), Ghana Stock Exchange (GSE), Chartered Accountants in audit firms, Stock Exchange Commission (SEC), Ghana Revenue Authority (GRA) and Ghana Audit Service (GAS). These regulatory bodies will be considered because; ICAG issues national accounting standards which regulate the preparation of financial statements by various entities in the country; Chartered Accountants in Audit firms offer professional services like audit and assurance, tax and consultancy. They therefore have an interest in the financial reporting standards of SMEs since it has a bearing on their work; GSE&SEC mandates all entities listed and to be listed to prepare their financial statements in line with IFRS; GRA&GAS make sure that SMEs and other companies prepare
their accounts in line with the acceptable reporting standards. They ensure that financial statements prepared conform to financial reporting standards and present a true and fair view of the entity for uniform payment of taxes.

B. Sampling method

This study used a purposive sampling method. Purposive sampling method selects a sample that conforms to certain criteria and is thus non-probabilistic (Cooper & Schindler, 2010). A purposive sampling method was considered because there was no access to all the units in the target population as required under probability sampling (Mugenda, 2008:182). The research problem is of a technical nature and, thus, the study employed the expert sampling method in respect of each category.

C. Sample size

This study intended to generalise the implementation challenges of IAS 41/IFRS 13 of SMEs in the agricultural sector in Ghana. This would, essentially, require a large sample, but on account of limited resources and the lack of similar research, a smaller sample was used to indicate the implementation challenges, and to provide a resonance basis for further research Mugenda (2008). Therefore, a sample size of 15 was used. This comprised of ten Chartered Accountants in audit firms, one each for Institute of Chartered Accountants Ghana (ICAG), Ghana Stock Exchange (GSE), Stock Exchange Commission (SEC), Ghana Revenue Authority (GRA) and Ghana Audit Service (GAS). The distribution of the sample size is shown on the table below:

Sub-sector	**Characteristics**	**Activities**	**Number of entities**
Chartered Accountants in audit firms	licensed chartered accountants in audit firms	Audit of financial statements for listed and unlisted entities	10
Institute of Chartered Accountants Ghana (ICAG)	Accounting regulatory body	Regulating and enforcement of financial reporting laws	1
Ghana Stock Exchange (GSE)	Listed companies market	In charge of all listed companies in Ghana	1
Stock Exchange Commission (SEC)	Listed companies regulator	Regulates the stock exchange market in Ghana	1
Ghana Revenue Authority (GRA)	Revenue mobilisation authority for Ghana	In charge of revenue mobilisation in Ghana	1
Ghana Audit Service (GAS).	Auditing public sector	In charge of auditing governmental and non-governmental organisations	1

Analysis and Findings

Table 2: Objectives of your office in promoting the implementation of IFRS 13 agriculture in Ghana?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		3	20.0	20.0	20.0
	advise clients	6	40.0	40.0	60.0
	educate firms	2	13.3	13.3	73.3
	educating clients about IFRS	4	26.7	26.7	100.0
	Total	15	100.0	100.0	

Table 2 above shows that out of the total respondents, (40%) are of the view that regulatory bodies can promote the implementation of IFRS 13 in the agricultural sector by advising clients of the agricultural farms on IFRS

Table 3: When did your office initiate plans to the implementation of IFRS 13 agriculture by SMEs in the agriculture sector in Ghana

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		12	80.0	80.0	80.0
	2010	1	6.7	6.7	86.7
	2013	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Table 3 above shows that majority of the respondents (80%) did not respond as to whether the office of the regulatory bodies has initiated plans to implement IFRS 13 in the agricultural sector

Table 4: What are some of the activities your office has carried out in the past to support effective implementation of the IFRS 13 agriculture?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid		8	53.3	53.3	53.3
	Training	2	13.3	13.3	66.7
	Workshop	5	33.3	33.3	100.0
	Total	15	100.0	100.0	

Table 4 above shows that majority of the respondents (53%) did not respond as to whether the office of the regulatory bodies has carried out any activity in the past to support effective implementation of the IFRS 13 agriculture. However 33% of the respondents stated that they have organized workshops for entities in the agricultural sector to be familiar with IFRS

Table 4: IFRS 13 is complex and thus too difficult to enforce at the SMES in agricultural sector in Ghana

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	undecided	1	6.7	6.7	6.7
	Agree	6	40.0	40.0	46.7
	strongly agree	8	53.3	53.3	100.0
	Total	15	100.0	100.0	

Table 4 shows that majority of the respondents (53%) strongly agree that IFRS 13 is difficult to enforce in the agricultural sector

Table 5: IFRS implementation and enforcement costs are too high

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	undecided	2	13.3	13.3	13.3
	Agree	10	66.7	66.7	80.0
	strongly agree	3	20.0	20.0	100.0
	Total	15	100.0	100.0	

Table 5 above shows that majority of the respondents (66.7%) agreed that implementation and enforcement cost of IFRS 13 are too high

Table 6: Lack of adequately trained human resources make enforcement of IFRS difficult

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	1	6.7	6.7	6.7
	undecided	1	6.7	6.7	13.3
	Agree	9	60.0	60.0	73.3
	strongly agree	4	26.7	26.7	100.0
	Total	15	100.0	100.0	

Table 6 above shows that majority of the respondents (60%) agreed that lack of adequately trained human resources make enforcement of IFRS difficult.

Table 7: Constant professional development is not well monitored

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	undecided	1	6.7	6.7	6.7
	Agree	8	53.3	53.3	60.0
	strongly agree	6	40.0	40.0	100.0
	Total	15	100.0	100.0	

Table 7 above shows that majority of the respondents (53.3%) agree that constant professional development is not well monitored for the implementation of IFRS

Table 8: Absence of involvement of regulatory bodies make enforcement difficult

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	1	6.7	6.7	6.7
	Agree	9	60.0	60.0	66.7
	strongly agree	5	33.3	33.3	100.0
	Total	15	100.0	100.0	

Table 8 above shows that majority of the respondents (60%) agree that absence of involvement of regulatory bodies make enforcement of IFRS difficult.

Table 9: There is lack of methodological relationship between existing local laws and IFRS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	undecided	4	26.7	26.7	26.7
	Agree	9	60.0	60.0	86.7
	strongly agree	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Table 9 above shows that majority of the respondents (60%) agreed that there is lack of methodological relationship between existing local laws and IFRS

Table 10: There is lack of methodological relationship between regulatory system of the country(ie between government and other regulatory structures)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly disagree	1	6.7	6.7	6.7
	Disagree	1	6.7	6.7	13.3
	undecided	7	46.7	46.7	60.0
	Agree	4	26.7	26.7	86.7
	strongly agree	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Table 10 above shows that majority of the respondents (46.7%) are undecided that there is lack of methodological relationship between regulatory system of the country (i.e. between government and other regulatory structures)

III. CONCLUDING AND FUTURE WORKS

This study attempted to assess the effect of existing laws on fair value implementation in the agricultural sector in Ghana. Based on the findings, it was concluded that the implementation of IFRS 13 is a right step in the right direction. Several challenges to the process of implementing the IFRS 13 were highlighted, the absence of enforcement; and the weakness of the governance system in Ghana. One limitation to this research is that this study did not consider a large sample size. However, future research should take large sample size in order to explain more about the level of acquiescence on application of IFRS 13. It would also be appropriate to conduct more research to explore whether such challenges exist in the Ghanaian banking sector, and to assess the current state of corporate governance in Ghanaian companies in general.

A. Recommendations

Given these results, it is recommended that Ghanaian regulators should amend the existing laws to facilitate IFRS applications. Policy-makers also need to incorporate these standards into accounting curriculums and training programmes to ensure that there is synchronisation between the accounting profession, and accounting education at the national level.

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