404 AEC
Agricultural Accounting

By

Dr. Mahmoud Arafa

Lecturer of Agricultural Economic, Cairo Un.

Contacts:

E-Mail: mahmoud.arafa@agr.cu.edu.eg

W.S: http://scholar.cu.edu.eg/mahmoudarafa

Introduction

Accounting is a social science

The nature of accounting information has been updated from time to time by the needs of the users of the day. The history of accounting reflects the pattern of social developments and the forces which necessitate the changes in accounting system.

Accounting functions

Accounting can be described as being concerned with measurement and management. Measurement of recording transactions and management with the use of data for making decisions.

Accounting functions

Accounting function is vital for every entity of the society whether individuals, house wives, Farmers owner, business entity, nonprofit organizations such as clubs. All are required to maintain accounts.

language of the business

Accounting is commonly referred to as the "language of the business" as it is effectively employed to communicate the financial performance of business to various interested parties or stakeholders. It is concerned with the measurement and communicating financial data.

Financial Accounting

Financial Accounting is concerned with the collection, recording, classification and presentation of financial data to serve the purposes of the management, shareholders and stakeholders, such as, creditors, bankers, Government, etc.

double entry system

Financial Accounting is based on double entry system of accounting which comprises of

(i) Recording of business transactions in the books of prime entry (Journal),

(ii) Posting into respective ledger accounts,

(iii) Striking balance,

(iv) Preparing the performance statement (profit and loss statement) and position statement (balance sheet).

The nature and purpose of accounting

The basic aim of accounting in a business entity is to provide financial information for making decisions on its activities. Managers of an economic entity at various levels require. Analyses financial information for planning and programming, for controlling expenditure, for ascertaining the extent of profitability or otherwise of a department – even of each production item for undertaking new jobs, etc.

The nature and purpose of accounting

Financial information in tabular forms and with graphs and charts are also required by the outsiders, namely, bankers, financial institutions, creditors, investors, government agencies and even by the labor unions and the general public who have some interest in the particular business concern.

Definition of Accounting

A widely accepted definition of accounting has been provided by **the American Accounting Association**. According to this definition **accounting is the process of identifying, measuring and communicating information to permit judgment and decisions by the users of accounts**.

This definition implies that –

(1) There should be users of accounts, who need relevant information,

(2) The information should enable the users to make judgment and decisions,

(3) Transactions and events are measured and the data are processed and then communicated to the users through accounting.

Objectives of Accounting

The basic objectives of accounting are to provide financial information to the managers, owners and the stakeholders i.e. the parties who are interested in an organization. To attain such objectives various financial statements are prepared.

Objectives of Accounting

- **The users of financial statements may be broadly classified as the following groups –**
- (a) The investor
- (b) The lender
- (c) The customers and suppliers
- (d) The government
- (e) The employee group
- (f) The analyst
- (g) The Management

Objectives of Accounting

(a) The investor –

This group includes both existing and potential owners of shares in companies. They are broadly interested in the performance of the entity and the dividend declared by such entity. They also measure the social and economic policies of the company to decide whether they will remain associated with such entity.

- (b) The lender – This group includes both secured and unsecured lenders. Such creditors may be financing long term or short term loans. The financial statements are analyzed to determine an organization's ability as to
- (i) Pay the interest on due date,
- (ii) The growth and stability of the organization,
- (iii) Capability of repaying the loan as agreed upon,
- (iv) The book value of assets offered as security by the organization.

- (c) The customers and suppliers – While customers are interested in the ability of the organization to provide goods/services, the suppliers are interested in the capability of the organization to pay their dues as and when due.

- (d) The government – This group includes various taxation authorities viz. Income tax, Excise department, Sales tax department etc. and also various other government authorities for statistical purposes and for framing various economic and planning policies.

- (e) The employee group – The employees are concerned with the capability of an organization to pay their present emoluments and future retirement benefits.
- Moreover, financial statements help them to asses job security.

- (f) The analyst – Advisors to the management, investors, employees or public at large collect various data from financial statements to advise their clients.

- (g) The Management – Financial statements provide required information to different levels of management to assist them in making decisions at each appropriate level.

SUBDIVISION OF ACCOUNTING

- Generally, accounting is subdivided as follows:
- a) Book-keeping
- b) Measuring working results and capital of the economic entity and reporting.

- a) Book-Keeping: Book-keeping is the art and science of recording transactions of a Business enterprise or an organization carrying out non-business activities in a systematic and appropriate manner to measure the working results and capital at periodical interval depending upon needs of an entity.

- (b) Measuring working results and capital of the economic entity and reporting: The most important aspect of accounting records is to measure the working results and the capital of the economic entity and interpreting and reporting of results.

CONCEPTS AND CONVENTIONS IN ACCOUNTING

- Accounting principles are built on a foundation of a few basic concepts. These concepts are so basic that most accountants do not consciously think of them; they are regarded as being self-evident. Non-accountants will not find these concepts to be self-evident. Some accounting theorists argue that certain of the present concepts are wrong and should be changed. But in order to understand accounting, as it now exists, one must understand what the underlying concepts currently are.

accounting concepts and conventions

- The term "accounting concepts and conventions" refer to the customs or traditions, which are used as a guide in the preparation of meaningful financial records in the form of the income statement (Profit and Loss Account) and the position statement (Balance Sheet).
- These are as follows.

Accounting concepts and conventions

CONCEPTS

1-Business Entity

2-Money Measurement

3-Cost

4-Going Concern

5-Dual-aspect

6-Realisation

7-Accrual

8-Accounting Period

CONVENTIONS

1-Conservatism

2-Consistency

3-Matching

4-Disclosure

5-Materiality

Concepts

1. Business Entity Concept:

The business is treated as a distinct and separate entity from the individuals who own it and accordingly accountants record transactions.

2. Money Measurement Concept:

A record is made only of the information that can be expressed in monetary terms for accounting purposes.

3. Cost Concept:

Transactions are recorded in the books at the price paid that is the cost. This avoids an arbitrary value being placed on the asset and all subsequent accounting is in relation to the cost.

The cost concept and the money measurement concept go hand in hand.

4. Going Concern Concept:

Accounting assumes that the business will exist indefinitely into future and accordingly transactions are recorded. In other cases where the business is an on-going activity resale value of assets is irrelevant.

The whole accounting is done based on this assumption.

5. Dual Aspect Concept:

The economic resources of an entity are assets and the acquisition of an asset must be on account of: –

(a) Some other assets being sold ; or

(b) The creation of an obligation to pay ; or

(c) There has been a profit owed to proprietor ; or

(d) The owner has contributed.

On the other hand, an increase in liability is on account of an increase in asset or a loss.

Therefore, at any time –

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

6. Realization Concept:

The realization concept indicates the amount of revenue that should be considered from a given transaction. Realization refers to inflows of cash or claims to cash. It states that the amount recognized as revenue is the amount that is reasonably certain to be realised.

7. Accrual Concept:

Profit arises only out of business operation when there is an increase in the owner's share of the business and not due to his contribution to the business. Any increase in owner's equity is called revenue and any reduction in it termed as a loan.

8. Accounting Period Concept:

The accounting reports measure activities for a specified interval of time called the accounting period, which is usually one year and therefore termed as annual reports. Prepare reports in between may be for internal users.

Conventions

1. Conservatism:

Financial statements are drawn on a conservatism basis where better evidence is required of losses. This is necessary as Management and ownership are in different hands and a cut is needed on management to show overoptimistic, favourable performance results.

2. Consistency:

This concept states that once the organisation has decided on a method, it should use the same method subsequently unless there is a valid reason for a change of method. If frequent changes are made it is not possible to carry out comparisons on an inter-period or inter firm basis. If a change is necessary it has to be highlighted. e.g. if depreciation is charged on diminishing balance method, it should be done year after year.

3. Matching:

When an event affects both revenues and expenses, the effect on each period should be recognised in the same accounting period. This leads to matching concept. The matching concept is applied by first determining the items that constitute revenues for the period and their amounts in accordance with the conservatism concepts and then matching costs to these revenues. Thus both the aspects of an event are recorded in terms of revenue and expense in the same accounting period.

4. Disclosure:

Apart from legal requirements all significant information should be clear. The matching concept states that all significant information should be disclosed and all insignificant information should be disregarded. However, there are no definite rules to separate the two.

5. Materiality:

The accountant should attach importance to material details and ignore insignificant details.

This has already been referred to above in connection with Disclosure. In addition to what has already been discussed, the reader is to note the following points:

a) Materiality of information. b) Materiality of amount. c) Materiality of procedure . d) Materiality of nature

Assignment

Analyze and Journalize the following transactions and record theme in the journal book

April 1 Adam started business with EGP 150,000 in cash.

2 Purchased goods by EGP 4,000 from Ahmed-Co on account.

3 Cash sales to Medo EGP 1,200.

6 sales on account to Said EGP 2,000.

9 Rent a peace of land by EGP1500 in cash.

12 Sold animals to RT-Com. By EGP 80000.

14 Paid The value of purchases (EGP 4000) to Ahmed-co.

16 Received the value of sold animals from Rt-Com.

19 Received the value of sold from said.