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ANALYSIS OF CURRENT ACCOUNTING PRACTICES AND CHALLENGES IN AGRICULTURAL ENTERPRISES

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Abstract:
Agricultural enterprises play a critical role in the economic development of Uzbekistan, contributing to food security, employment, and GDP growth. However, their financial reporting practices remain outdated, relying heavily on local standards that fail to meet international requirements. This study analyzes the current accounting practices in Uzbekistan's agricultural sector, identifies key challenges in transitioning to International Financial Reporting Standards (IFRS), and highlights the barriers to implementing IAS 41 ("Agriculture"). The findings reveal gaps in market data availability, regulatory misalignment, and skill deficiencies among accounting professionals. Recommendations for overcoming these challenges include capacity-building initiatives, regulatory reforms, and the adoption of digital technologies to facilitate accurate and transparent financial reporting.

Keywords: Agricultural accounting, IFRS, IAS 41, biological assets, financial reporting, Uzbekistan agriculture, regulatory alignment, fair value, digital transformation, capacity building.

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Introduction

Agriculture is a cornerstone of Uzbekistan's economy, providing food security, employment, and significant contributions to GDP. However, the sector faces growing challenges as it seeks to compete in global markets. Transparent and accurate financial reporting is essential for attracting foreign investments and establishing trust with international stakeholders. Despite its importance, financial reporting practices in Uzbekistan's agricultural sector rely on outdated local standards, which undervalue biological assets and fail to meet the transparency requirements of global markets.

International Financial Reporting Standards (IFRS), particularly IAS 41, offer a globally recognized framework for accurately valuing biological assets. By focusing on fair value measurement, IAS 41 ensures that the economic potential of these assets is adequately reflected. However, transitioning to IFRS poses significant challenges, including limited market data, regulatory gaps, and a lack of expertise among accounting professionals. This article analyzes the current state of accounting practices in agricultural enterprises, highlights the challenges faced in adopting IAS 41, and proposes actionable solutions to align with international standards.

The adoption of International Financial Reporting Standards (IFRS) has reshaped financial reporting globally, offering enhanced transparency, comparability, and decision-usefulness. In the agricultural sector, IAS 41 ("Agriculture") is particularly relevant due to its emphasis on fair value accounting for biological assets. This literature review examines the current knowledge on IFRS adoption in agriculture, the challenges of implementing IAS 41, and the potential solutions proposed by researchers and practitioners.

Fair value accounting under IAS 41 is recognized for its ability to accurately reflect the dynamic

Volume 2, Issue 12, December - 2024 ISSN (E): 2938-3803

economic value of biological assets. Barth et al. (2008) highlight that IFRS adoption improves financial reporting quality by increasing the relevance of financial information. Specifically, IAS 41 provides stakeholders with a realistic understanding of an enterprise's financial health, fostering investor confidence and enabling better decision-making. Henderson and O'Brien (2016) note that while fair value accounting enhances transparency, it can also introduce volatility in earnings due to fluctuations in market prices, potentially affecting the perceived stability of enterprises.

The lack of active markets for biological assets poses a significant barrier to implementing IAS 41 in developing economies. Christensen et al. (2013) identify market data scarcity as a critical issue, complicating the valuation process for crops, livestock, and other agricultural resources. Without reliable benchmarks, enterprises struggle to estimate the fair value of their biological assets, reducing the accuracy and consistency of financial reporting. This challenge is compounded by the technical complexity of fair value accounting, which requires advanced valuation skills and a deep understanding of market dynamics.

Regulatory and institutional frameworks also play a critical role in IFRS adoption. Pacter (2015) emphasizes that in many emerging economies, including Uzbekistan, existing regulations are not aligned with international standards, creating inconsistencies and challenges for enterprises transitioning to IFRS. Harmonizing local regulations with IFRS is essential to ensure compliance and foster a conducive environment for adoption.

Skill gaps among accounting professionals are another widely noted challenge. Zeff (2019) highlights the lack of training in IFRS, particularly in fair value accounting, as a significant obstacle. The technical requirements of IAS 41 necessitate specialized education, which is often unavailable in regions where IFRS adoption is in its early stages. Researchers propose capacity-building initiatives, such as certification programs and targeted training workshops, to address this issue.

Digital transformation has emerged as a potential solution to some of these challenges. Kaplan and Norton (2018) argue that automated accounting systems, data analytics platforms, and blockchain technology can simplify fair value calculations, improve data accuracy, and enhance the efficiency of financial reporting processes. These tools reduce the reliance on manual methods, which are prone to errors and inefficiencies.

While extensive research has been conducted on IFRS adoption globally, limited studies focus on its application in Uzbekistan's agricultural sector. The Ministry of Agriculture of Uzbekistan (2022) highlights the importance of aligning financial reporting practices with international standards to attract foreign investment and enhance competitiveness. However, comprehensive methodologies for implementing IAS 41 in the local context remain underdeveloped.

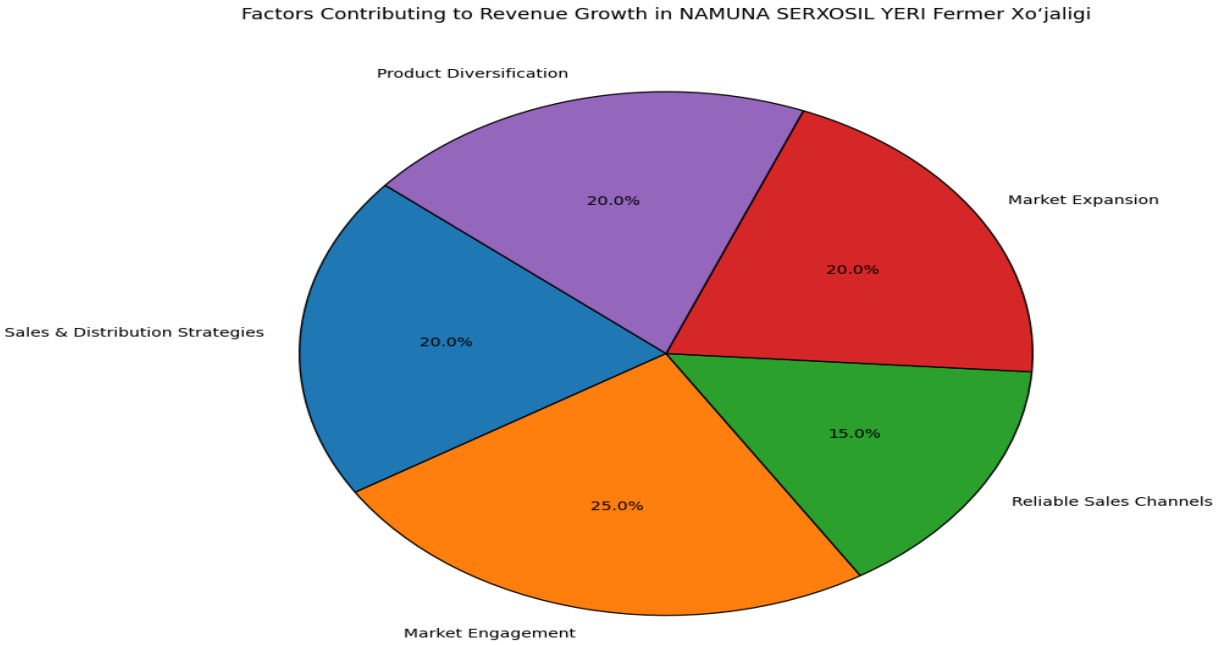
The literature underscores the significant potential of aligning agricultural accounting practices with IFRS to enhance transparency and attract international investment. However, the transition requires a multifaceted approach that combines regulatory reforms, capacity building, and technological investments. Developing market infrastructure and active trading platforms for biological assets is identified as a critical enabler for successful IFRS adoption. This study builds on these insights to provide a detailed analysis of the challenges and practical recommendations for implementing IAS 41 in Uzbekistan's agricultural sector.

The significant rise in sales revenue for "Namuna serxosil yeri" farm highlights the enterprise's

Volume 2, Issue 12, December - 2024 ISSN (E): 2938-3803

positive market position and operational efficiency. This increase demonstrates the enterprise's adaptability and potential for growth in a competitive agricultural sector. However, to maintain and enhance this momentum, the enterprise should continue to focus on optimizing production, exploring new market opportunities, and leveraging favorable conditions. By investing in distribution networks, further diversifying its product range, and remaining vigilant to market trends, "Namuna serxosil yeri" farm can ensure sustained revenue growth and long-term profitability.

The following illustration summarizes key factors contributing to the revenue growth:



Drawing 1. Factors contributing to revenue growth in "Namuna serxosil yeri" farm

- sales & distribution strategies: developing strong sales channels ensures a consistent market reach.
- market engagement: actively engaging with existing and potential markets strengthens brand presence.
- reliable sales channels: partnerships with reliable distributors and retailers reduce revenue fluctuations.
- market expansion: entering new regions or customer segments increases revenue potential.
- product diversification: offering value-added or specialized products attracts a broader customer base.

In the financial report for "Namuna serxosil yeri" farm, a notable increase in the Cost of goods sold (COGS) is observed, rising from 1,063,910.13 units in the previous period to 1,438,467.00 units in the current period. COGS includes all direct expenses associated with producing goods and services, such as raw materials, labor, and operational inputs. For agricultural enterprises, COGS is a critical metric, as it reflects the direct costs needed to bring products to market. The rise in COGS for "Namuna serxosil yeri" indicates that while the enterprise has generated higher revenue, it has also faced significant cost pressures. These rising production costs can impact the profitability and sustainability of the enterprise if not managed effectively.

Volume 2, Issue 12, December - 2024 ISSN (E): 2938-3803

Table 2. Comparison of cost of goods sold (COGS)

Period	Previous COGS (Units)	Current COGS (Units)	Increase in COGS (Units)
COGS for "Namuna serxosil yeri"	1,063,910.13	1,438,467.00	374,556.87

The substantial increase in COGS-by 374,556.87 units-reflects the cost pressures faced by the enterprise in the current period. This rise underscores the importance of managing production expenses to maintain profitability.

Several factors likely contributed to the increase in COGS. One potential factor is the rising cost of agricultural inputs such as seeds, fertilizers, and pesticides. In many agricultural markets, the prices of these essential inputs fluctuate due to various factors, including supply chain disruptions, import tariffs, and global commodity prices. For instance, if the price of fertilizer has increased significantly, the enterprise would need to spend more to maintain its crop yield, directly impacting the COGS. Similarly, higher costs for quality seeds or pesticides would add to production expenses. For "Namuna serxosil yeri" farm, these input price increases may be a substantial contributor to the rise in COGS, highlighting the vulnerability of agricultural enterprises to external price volatility.

Table 3. Potential factors contributing to increased COGS

Factor	Description	Impact on COGS
Rising Input Costs	Increased prices for seeds, fertilizers, and pesticides due to supply chain issues, tariffs, or global market changes.	Higher expenditure on production inputs
Labor Costs	Potential rise in labor costs due to increased wages, seasonal labor shortages, or reliance on skilled labor.	Increased direct costs of production
Equipment Maintenance	Higher maintenance costs due to wear and tear or need for additional equipment to support production capacity.	Increased operational costs
Operational Overheads	Rising fuel, utility, and transport costs associated with expanded or intensified production processes.	Additional production expenses

Rising input costs:

Agricultural enterprises are heavily dependent on raw materials like seeds, fertilizers, and pesticides, whose prices are affected by global supply chain issues, tariffs, and currency fluctuations. For example, if the price of fertilizer increases due to global supply shortages or tariff policies, "Namuna serxosil yeri" farm would need to spend more to maintain productivity levels, leading to higher COGS.

Labor costs:

Labor is a significant component of agricultural production, as it involves tasks such as planting, maintenance, and harvesting. In the current period, labor costs may have increased due to wage inflation, seasonal labor shortages, or the need for skilled labor for specialized tasks. For example, if additional workers were required during peak seasons, labor expenses would rise accordingly, contributing to the overall increase in COGS.

Equipment maintenance and operational overheads: Machinery and equipment are essential for

Volume 2, Issue 12, December - 2024 ISSN (E): 2938-3803

efficient agricultural production, and over time, they require maintenance and repairs. Additionally, if production volume has expanded, there may be higher fuel and utility costs, as well as transport expenses for distributing products. All these factors combined increase the operational overheads, adding to the COGS and impacting profitability.

The increase in COGS for "Namuna serxosil yeri" farm highlights the challenges of managing production costs in the agricultural sector, where input prices, labor, and equipment costs are subject to external economic pressures. To mitigate these cost pressures, the enterprise may need to explore cost-saving measures, such as optimizing resource usage, negotiating better rates with suppliers, and investing in technology to improve operational efficiency.

Labor costs are a substantial factor contributing to the increased cost of goods sold (COGS) in "Namuna serxosil yeri" farm. In agriculture, labor is crucial at every stage of production, from planting and maintaining crops to harvesting and managing livestock. Agricultural enterprises often rely heavily on manual labor due to the complexity and sensitivity of agricultural tasks, which require precision and attention. As wages rise, particularly in regions where labor costs are climbing due to inflation or increased demand for skilled labor, the expenses associated with hiring workers also increase. For "Namuna serxosil yeri" this has likely meant higher expenditure on maintaining adequate staff to manage production cycles.

The analysis of current accounting practices in Uzbekistan's agricultural sector reveals significant gaps that hinder transparency, reliability, and alignment with international standards. The reliance on outdated local accounting standards undervalues biological assets and limits the ability of enterprises to attract foreign investment or compete effectively in global markets. The adoption of International Financial Reporting Standards (IFRS), particularly IAS 41 ("Agriculture"), offers a viable solution to address these challenges. Fair value accounting, as mandated by IAS 41, provides a more accurate representation of the economic value of biological assets, fostering greater trust among stakeholders and improving decision-making processes.

While the benefits of IFRS adoption are clear, the transition is fraught with challenges, including market data scarcity, regulatory misalignment, and a lack of expertise among accounting professionals. Digital technologies, regulatory reforms, and capacity-building initiatives are critical to overcoming these obstacles. The findings indicate that a strategic, phased approach to IFRS adoption, supported by pilot projects and collaborative efforts, can enable Uzbekistan's agricultural sector to modernize its financial reporting practices and unlock new opportunities for growth.

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Volume 2, Issue 12, December - 2024 ISSN (E): 2938-3803

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