International Journal of Applied Research

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 8.4
IJAR 2023; 9(3): 177-180
www.allresearchjournal.com
Received: 20-01-2023
Accepted: 25-02-2023

Dr. Dharminder Singh Ubha
Principal, GSSDGS Khalsa College, Patiala, Punjab, India

Shehzaad Singh Shergill
256-T, SC Form, The Doon School, Dehradun, Uttarakhand, India

Corresponding Author:
Dr. Dharminder Singh Ubha
Principal, GSSDGS Khalsa College, Patiala, Punjab, India

Agriculture accounting: Indian perspective

Dr. Dharminder Singh Ubha and Shehzaad Singh Shergill

Abstract
Agriculture is the backbone of the country. However, agriculture accounting is almost an ignored aspect by the farmers of the country. The researchers have made an effort in this paper to identify the reasons of not giving a main priority to the agriculture accounting in the country. The current state of affairs of agriculture accounting has also been discussed in the paper along with highlighting the importance and advantages of agriculture accounting to the farmers of the country. It has also been discussed in brief that how and what type of accounts can be kept by the farmers. Basically, the paper tries to find out the agriculture accounting practices in brief that are important for the farmers and what they are actually doing.

Keywords: Agriculture, accounting, farm accounting, farmers, agricultural accounting

Introduction

Agriculture is the backbone of Indian economy and development of agricultural sector is central to all strategies for planned development (Agricultural Finance Corporation, 2005) [2]. The seventy five percent of the total work force in the country is dependent upon agricultural sector and all the rural population survives on this sector in one way or the other for their livelihood (Sharma & Singh, 1997) [19]. It has always remained the most important economic sector of Indian economy. It has also been the source of raw materials to our leading industries such as sugar, cotton and jute, textiles, hydrogenated oils, food products, soap and other agro-based industries which together account for fifty percent of the income generated in the manufacturing sector of India (Malhotra, 1998) [15]. The 1970s saw a huge increase in India's wheat production that heralded the Green Revolution in the country. The increase in post -independence agricultural production has been brought about by bringing additional area under cultivation, extension of irrigation facilities, use of better seeds, better techniques, water management, and plant protection.

Concept of accounting

Accounting is often referred to as the language of business. It is the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by the users of the information. It is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions and reasoned choices among alternative courses of action. It has to measure the employment of the assets of a business enterprise for profit, and to disclose it in the financial statements and reports of the enterprise for a particular period.

The primary role of accounting is to provide an effective measurement and reporting system. It can be termed as accounting information system for decision making. Thus the ultimate aim of accounting is to communicate economic messages on the results of business decisions and events to the users in such a way so as to achieve maximum understanding on their part. The quality of information available to them would, in turn, lead to a more efficient allocation of resources in the economy of a country. Sorter and Gams have a point when they say:

"Society looks to corporations for assistance in the efficient allocation of resources and expects the corporations to assume the responsibility of providing information that furthers this goal."

Concept of agricultural accounting

The basis of progress and success in business is experience. Without suitable records and accurate interpretation of them, however, much of the value of experience is lost. Agricultural Accounting is defined as the art as well as science of recording in books business transactions in a regular and systematic manner so that their nature, extent and financial effects can be readily ascertained at any time of the year. It is known as a system of records written to furnish a history of the business transactions, with special reference to its financial side (Adams). It is not a direct way of making money, but rather a means of sowing where the money goes of pointing out where profits are being made and where bakes occur. Farm accounting thus, in the usual sense is an application of the accounting principles to the business of farming. It is an applied science requiring modifications to suit the needs of varied and less definite operations of a series of agricultural enterprises (Efferson).

Components of farm records and accounting system

James and Stoneberg has discussed major components useful to farm accountants which are as under:

1. **Asset and Liability Account:** This is a physical and financial account of all farm resources (assets) and the claims against those resources (liabilities). The proper ordering of the assets and liabilities account will provide the net worth statement or balance sheet of the business. The net worth statement is an account of the farmer's financial position at any given time.
2. **Receipt and Expense Account:** This account of financial flows into (receipts) and out of (expenses) the business over a period of time, usually one year, may include both cash and noncash transactions. Subtracting expenses from receipts gives net farms income, which measures the profitability of operating the business, i.e., the return to the operator for his labour, management, and capital.
3. **Capital Account:** This is a purchase record of capital assets and improvements, which cannot be debited fully as expenses in the year purchased, and a sales record of similar items. Purchases and sales of capital assets affect directly the balance of assets and there may be credit liabilities involved. Generally these assets are depreciable and thus the expense account will be affected. Gains and losses from sales also may affect the net income statement.
4. **Credit Account:** This record of farm liabilities includes recording new loans as well as keeping track of principal and interest payments and tabulating unpaid principal balances on existing loans.
5. **Production and Statistical Records:** These Records relate to the production of crop and livestock enterprises on the farm and the resources used. Labour, feed, crop fertilization, and crop yield records are examples.
6. **The Farm Business Analysis:** The inventory and the receipt and expense accounts are combined with production records to probe for strong and weak areas within the business. These analyses are commonly called efficiency measures. The information they provide often is useful in identifying problems and directing future farm management decisions. Growth and progress can be measured over time by a comparison between years.
7. **Enterprise Records and Accounts:** All information that can be recorded for the total farm can be kept for individual enterprises. Often only minor additional records are required, over those necessary for the total business, to make rather detailed enterprise analyses. These often are referred to as cost accounts.

Common records under agricultural accounting

S.C. Panda has identified that there are two types of farm records which can normally be kept under agricultural accounting:

A. Non-Cash Records
B. Cash Records

A. Non-cash records

1. **Daily Requisition Sheet (or Book):** Daily requisition sheet – in previous evening requirements of next morning in Labour, Seeds, Manure, Implements etc. given – Farm Manager keeps those arranged and distributes labour accordingly, Execution of work smooth.
2. **Work Sheet:** Daily Work Sheet – By evening – Actual work done during the day is written – Supplies information to Overseer's Dairy etc.
3. **Overseer's Diary:** Entered next day – Information from work sheet-Classified entry- Labour cost calculated. Weather-Visitors-Special.
4. **Cultivation Book:** Details of cultivation of individual plots chronological order – cost yield etc. (i) gives history of the plot – (ii) helps the cost of cultivation calculation. One cultivation sheet for each plot. Information taken from Overseer's Diary.
5. **Crop Register:** Crop wise information is maintained in this register. The details of operations, cost involved, materials used etc. are recorded. Information is taken from the Overseer's Diary. Helps in getting average yield of different crops of the farm per hectare – cost of cultivation of different crops.
6. **Produce Registrar:** First raw weight of the farm produce is noted at the threshing floor or the field. Subsequently dried, cleaned and processed – 2nd and final weight are taken and recorded in this register. This final weight is carried to the stock book, gives information about percentage loss in drying and processing. Pilferage is checked.

Note: These non-cash records are useful as they help:

1. In smooth management of the farm.
2. Proper supervision and efficient use of different factors of production.
3. In supplying information regarding efficiency of different enterprises. So they should be correctly maintained.

B. Cash records

Those records which deal with Cash transactions

1. **Journal:** A book of original entry. It is a primary record and a Rough Book of all financial transactions. Entry is made in chronological order as the transactions take place. Each transaction is entered both for debit and credit aspect consequently. Decision about the Head of Accounts is made before entry. Debit and Credit entries are equal. At the end of the day totalling

is done. Debit and Credit total will be equal. (This gives information for entry in Cash Book and stock Book).

2. **Ledger:** A book of final entry and a permanent record. The Chief Book or Principal Book contains individual accounts. All the transactions relating to a particular account is found in one Book. Information is taken from the Journal for making entry in a ledger. A bound Book having duplicate pages- two consecutive facing pages make one Folio. Debit is left side – Credit is right side of the Folio.
3. **Stock Ledger or Stock Book:** Depending on the volume of business there may be a separate Stock Ledger for each group of articles. Example – Cattle Feed Ledger, Seed Ledger, Manures Ledger etc.

Minimum one folio is allotted to each article. More folios may be allotted if required. Index is written in the beginning for ready references. Name of the article is written on the top of each folio.

Cash Book

Cash Ledger – Principal and Final record of all cash transactions – same as ledger – All cash received (Sale proceeds) are entered in the Debit (Left) side – All cash disbursed (paid) are entered in the Credit (Right) side. No index – No Folio allotted to different articles – as only item is Cash.

Muster Roll

Attendance and payment of casual labourers separately for each week. Daily attendance of the labourers, Total at the end of the week. Abstract of payment at the end of week, and Signature or Thumb impression at the time of payment Labourers grouped according to wage rates are mentioned in the muster roll.

Contingent register

Register containing the details of all contingent expenditure of a farm. The vouchers are serially numbered and details written. Amounts are entered in a classified manner under different budget heads. Advance Bills drawn and Vouchers obtained are numbered separately.

Bill register

Details about Bills prepared and money drawn from the Bank – Serial number, Date, Amount, Budget Head, when presented in the Treasury and when cash received etc. are entered in this.

Note: Other minor records are Cash Memo, Credit Memo, etc. new registers may be opened according to the need of the business.

Physical farm records

Physical records are related to the physical aspects of the operation of a farm business. They do not indicate financial position or outcome of the farm business, but simply record the physical efficiency or performance of the farm.

These following farm records are taken under non-cash records

1. Farm map, Soil Map and Contour Map,
2. Charts on physical efficiency,
3. Land Utilization Record,
4. Crop Production and disposal record, and
5. Livestock Production and disposal Record,
6. Labour Records, Daily Work Diary,
7. Machinery Use Records,
8. Feed Records,
9. Stock/Store Register
10. Poultry Records.

Application of agricultural accounting in India

Agriculture, in India, is still not undertaken on commercial lines and prudent business principles. Its important reason is that our farmers neither keep the accounts relating to agriculture nor do they apply any techniques of accounting to control the agricultural costs. It is only with the help of accounts that we can have an optimum utilization of our frugal resources. Now agriculture is turning to be an industry and profession. A number of farms have mushroomed around the cities where mixed farming is carried out. That is why it becomes imperative to apply all those accounting techniques and principles, which are applicable to industry and business. The account keeping will not only be helpful in determining the exact costs but will also be instrumental in controlling and curbing the costs and improving the productivity and efficiency of agriculture. The best crop cycle may be adopted by having the cost benefit analysis for each crop. A depreciation reserve may be created for the replacement of fixed assets like tractor, tubewell and thresher etc.

Most of the agricultural transactions are exchange transactions. A worker may be given a part of the produce as a reward for his services. These kinds of dealings are to be converted into money value and then transferred to respective accounts. The cost concept of accounting can also not be applied in totality because assets like livestock are valued at market price. Similarly self-produced goods are also valued at the market price. Sometimes goods from agriculture may be transferred to allied activities. The correct valuation of such transfers is also required. Fixed Installment or Written Down Value method of depreciation may be applied on fixed assets. Agriculture is full of uncertainties and provision for the uncertain future is highly required. The crop insurance is still not undertaken on commercial lines. Record keeping will encourage the insurance companies to come forward in the field of crop insurance. The produce used for personal use is also to be accounted for. The above may be the basis for agricultural accounting. The technique of Marginal Costing can be of great use in selecting the best crop mix by dividing the costs into fixed and variable costs. Budgeting may also be helpful for earning good profits in agriculture.

After a survey of several small and big farmers of the area it was found that most of them are ignorant about the agriculture costs and accounts. If a farmer is asked to tell about his income from agriculture, his immediate answer will be that he had a crop of Rs. 50,000 this time. He treats the whole receipt from the sale of produce as his income. Another version which is generally in vogue is that the farmer first settles his old debt and then takes a new one at the time of the sale of produce and feels highly satisfied that now he has no outstanding payment of the previous years. So generally a farmer never thinks about the expenses incurred on the crop and if he thinks of something, it is only about the amount spent on buying the seeds, pesticides, manures and electricity. He never thinks about the costs of land and self-labour. He is totally ignorant about the concept of depreciation. So he does not keep into account the accounting assumptions and techniques relating to fixed assets.

The farmers are indulging in a rat race in the matter of buying modern agricultural equipment because of easy availability of bank loans. Even small farmers consider a tractor a matter of status and honour though it may be a white elephant for most of them. They never realize how they will pay the exorbitant interest. A fatal trend, which is perceptible now-a-days, is that the farmers sometimes get a tractor through bank loan to sell it immediately afterwards to spend the amount on useless luxuries of life. However, if a farmer maintains the proper accounts, he will have a proper analysis of the interest expenditure and hire charges if he hires the tractor instead of buying it. The disguised unemployment is another factor, which remains untouched because of non-maintenance of accounts. Most of the times the whole family of the farmer works in the fields directly or indirectly. But he never makes the evaluation of the services rendered by the members of the family. If a thorough analysis of the matter is made, he will find some of the members as economic burden on the institution. It is a fact that the efforts and outcome of the farmers are generally disproportionate.

No difference is generally found between the personal and agricultural transactions of a farmer. He normally keeps a common bank account from where he makes personal as well as business payments. In certain cases indigenous banking is still prevalent and all private and business expenses are paid in cash through the moneylender. The produce used at home is also not accounted for. Whatever is paid to the workers in the form of produce is not valued in money form and hence is not properly accounted for. The farmer does not bother about the concept of drawings and considers it below his status to account for the things used for domestic purpose. But this approach is against the concept of business. The business entity concept states that the entity of the business and the businessman is different and all transactions are recorded keeping the business in mind. Such an approach is needed in agriculture also if it is to be carried on commercial lines. Most of the farmers generally prefer cultivation of some particular crops because of status symbol though their costs of cultivation may not be fully recovered from them. They must have a cost benefit analysis of the crops and select those, which benefit the most at the lowest cost. Such an analysis is possible only through accounts.

References

1. Accounting Principles Board of the AICPA in its statement No. 4; c1970.
2. Agricultural Finance Corporation Ltd. Evaluation and Impact Assessment of ATMA [pdf]; c2005. Available at: <afcindia.org.in/PDF/research_reports/ATMA%20FINAL%20REPORT-160510-PDF/Chap%201-introduction-140510.pdf >[Accessed 20 April 2013].
3. American Accounting Association; c1966.
4. Armbruster, David B. Introduction to Agricultural Accounting. Red Wing: Red Wing Business Systems, Inc; c1994.
5. Grover DK, Kumar S. State of Punjab Agriculture. Ludhiana: Agro Economic Research Centre, PAU; c2011.
6. Haque T, Sharma S. Trends in Crop Output and Employment in India. Agricultural Situation in India. 2004;39(5):273-280.
7. Hopkins, John A, Heady, Earl O. Farm Records and Accounting. 5th ed. IOWA: IOWA State University Press; c1972.
8. Jain, Harish. The Making of Punjab. Chandigarh: Unistar Books Pvt. Ltd; c2003.
9. James, Sydney C, Stoneberg, Everett. Farm Accounting and Business Analysis. 2nd ed. IOWA: IOWA State University Press; c1979.
10. Kumar, Sabina. Management of Non-Performing Advances− A Study of District Central Co-operative Banks of Punjab. An Unpublished Ph.D. Thesis, HP University, Shimla; c2008.
11. Kurulkar. Agriculture Finance in Backward Region. Bombay: Himalaya Publishing House; c1983.
12. Kulkarni LG. Development Responsibility and Profitability of Banks. Economic and Political Weekly (Aug.), Mumbai; c1979.
13. Khan RAR. Strategy for farm planning and agricultural credit for rural development. Agric. Digest. 1986;6(10186):21.
14. Lodha. Social Lending – It's Relevance in Deregulated Economy. IBA Bulletin, (April), Mumbai; c2002.
15. Malhotra JS. Agricultural Finance in Jammu & Kashmir. New Delhi: Anmol Publications Pvt. Ltd; c1998.
16. Panda SC. Farm Management and Agricultural Marketing. Ludhiana: Kalyani Publishers; c2007.
17. Porwal LS. Accounting Theory - An Introduction. New Delhi: Tata McGraw Hill; c1989.
18. Saeed M. The Theory of Corporate Disclosure and its Application in Financial Reporting. In: M. Saeed, ed. 1990. Corporate Financial Reporting. New Delhi: Anmol Publication; c1990. p. 237.
19. Sharma KK, Singh Sukhpal. Indian Economy. Chandigarh: Unistar Books Pvt. Ltd; c1997.
20. Singh Jasdev, Grover DK, Dhaliwal Tejinder. AERC Study NO. 30. State Agriculture Profile – Punjab. Agro Economic Research Centre, Punjab Agriculture University, Punjab; c2013.
21. Sorter George H, Gams Martin S. Objective of Financial Statements. Supplement to Journal of Accounting Research; c1974. p. 8.
22. Wheeling, Barbara. Introduction to Agricultural Accounting. Montana: Thomson; c2008.