THE EXTENT OF COMPLIANCE WITH IAS 41 BY LIMITED AGRICULTURAL COMPANIES LISTED ON THE NAIROBI SECURITIES EXCHANGE

BY

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Declaration

This management research proposal is my own original work and has not been submitted for award of a degree in any other University.

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This research project has been submitted for examination with my approval as the University supervisor.

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Dedication

This research is dedicated to my wife Christine Muthoni and daughter Heidi Gachambi for their support encouragement and understanding throughout the research period. Your love, support and encouragements were a great inspiration during the period of this research.

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List of abbrev iations

AASB	- Australian Accounting Standards Board
AICPA	- American Institute of Certified Public Accountants
CICA	- Canadian Institute Chartered Accountants
CMA	-Capital Markets Authority
EU	- European Union
FASB	- Financial Accounting Standards Board
FiRe	- Financial Reporting
FPEAK.	- Fresh Produce and Exporters Association of Kenya
FRS	- Financial reporting standards
FRS	- Financial Reporting Standards
GAAP	- Generally Accepted Accounting Principles
IAS 41	- International Accounting Standards Number 41
IASB	- International Accounting Standards Board
IASC	- International Accounting Standards Committee
IASC	- International Accounting Standards Committee
IASs	- International Accounting Standards
ICPAK	- Institute of Certified Public Accountants
IF AC	- International Federation of Accountants
IFRS	- International Financial Reporting Standards
JSE	- Johannesburg Stocks Exchange
MAS	- Malaysian Accounting Standards
NSE	- Nairobi Securities Exchange
PCGA	- Plan Comptable General Agricole
UNCTAD	- United Nations Conference on Trade and Development
(JNTAD	- United Nations Trade and Development

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Abstract

IAS 41 introduces a fair value model to agricultural accounting. Its objective is to establish standards of accounting for agricultural activities, management of the biological transformation of biological assets and agricultural produce.

The adaptation to new accounting standards has affected many companies. Prior research by UNCTAD noted significant high levels of non-compliance with 1FRS. The greatest challenge by the agricultural companies is that IAS 41 regulates the valuation methods of their biological assets. Given that this was a transition from the historical cost accounting, this may have contributed to the low levels of non-compliance at the time UNCTAD conducted their research.

The objective of this study was to establish the extent of compliance with IAS 41 by listed agricultural companies on the Nairobi Securities Exchange. The researcher applied survey research design. Primary data was collected from the companies surveyed and used for analysis through descriptive statistics.

The research findings established levels of non compliance of IAS 41 ranging between 17% and 39% by listed agricultural companies on the Nairobi Security Exchange. The specific areas of non-compliance were in the financial disclosures with non compliance level of 20%, non financial disclosures with non compliance level of about 60% and other disclosures with a non compliance level of 100%. In conclusion ICPAK, NSE and CMA being the institutions charged with the responsibility of implementing and overseeing compliance with IFRSs should instigate stringent policies for noncompliance.

The researcher recommends further academic research on other limited agricultural companies not listed on the Nairobi Securities Exchange. Research findings of these companies would present more comprehensive findings on the extent of compliance with IAS 41 by agricultural companies in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

If "accounting is the language of finance" (Lasher, 2008, p.9), then financial reporting is the "communication of financial information useful for making investment, credit and other business decisions" (Wild, Shaw & Chiappetta, 2009, p. 681). Many financial reports are subject to various regulations and standards from organizations such as the Financial Accounting Standards Board (FASB) or the International Accounting Standards Board (IASB) (Wild, Shaw and Chiappetta, 2009, p. 9). The purpose of these various regulations, standards and Generally Accepted Accounting Principles (GAAP) is to ensure we're all reading from the same page.

The growing acceptance of International Financial Reporting Standards (IFRS) as a basis for financial reporting is a fundamental change for the accounting profession (American Institute of Certified Public Accountants, 2011, p. 2). The number of countries that require or allow the use of IFRS in the preparation of financial reports by publicly held companies has continued to increase. In a survey conducted in late 2007 by the International Federation of Accountants (IFAC), a large majority of accounting leaders from around the world agreed that a single set of international standards is important for economic growth (AICPA, 2011, p. 2). Many multinational companies and national regulators support it because they believe that the use of common standards in the preparation of financial statements will make it easier to compare the financial results of reporting entities from different countries. Also

companies with subsidiaries in multiple jurisdictions would be able to use one accounting language company-wide and present the financial statements in the same language as their competitors.

The international standard-setting process began several decades ago as an effort by industrialized nations to create standards that could be used by developing and smaller countries unable to establish their own accounting standards. But as the business world became more global, regulators, investors, large companies and auditing firms began to realize the importance of having common standards in all areas of the financial reporting chain. Between 1973 and 2000 the International Accounting Standards Committee (IASC) released a series of standards called 'International Accounting Standards' in a numerical sequence that began with IAS 1 and ended with IAS 41 Agriculture which was published in December, 2000.

Previously, no comprehensive accounting guidelines/standards for agriculture were available. Due to the diversity of agricultural activities uncertainty or conflicts when applying traditional accounting models (based on historical cost & realization) has been experienced in the past.

Agricultural activity covers diverse range of activities. These include raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, aquaculture (plus fish farming).Certain common features exist within this diversity; Capability to change. Living animals and plants are capable of biological transformation.

Biological transformation results to various outcomes. These outcomes are as a result of changes through growth (an increase in quantity or improvement in quality of an animal or plant), degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), procreation (creation of additional living animals or plants), or production of agricultural produce such as latex, tea leaf, wool, and milk. This diversity in the agriculture industry hence necessitated the development of a standard to cater for this diversity "IAS 41" (iasb.org).

The use of historical cost accounting models for agricultural enteiprises has long been a source of contention. Opponents argue that it fails to account for the unique reproductive and natural transformation of biological assets (Argiles & Slof, 2001). In the 1980s the American Institute of Certified Public Accountants (AICPA, 1985) and the Canadian Institute of Chartered Accountants (CICA, 1986) developed guidelines on accounting for agricultural producers (as cited in Argiles & Slof, 2001, p. 4). Both bodies resolved that agricultural producers should generally adopt the lower of cost and market method of valuation for livestock and harvested crops and only in rare circumstances use net farm prices.

In Europe the French "Plan Comptable General Agricole' (PCGA) was introduced in 1986. It dealt with the accounting of certain agricultural assets and strictly adhered to the historical cost principles (Argiles & Slof, 2001, p. 6). New Zealand and Australian accounting bodies were unified in their belief that certain agricultural assets (e.g, livestock) should be valued at their net current value (Anonymous, "n.d"). The argument for the choice of net current value was a view that it provides more relevant information to the producer, farm adviser and other relevant users. Generally the

accounting requirement of the Australian Accounting Standards Board (AASB) 1037 mirrored those in the current IAS 41. AASB 1037 attracted fierce criticism both before and after its gazettal (Herbohn & Herbohn, 2006).

IAS 41, the first ever international financial reporting standard on agricultural activity, represents the most comprehensive and far-reaching departure from the historical costs accounting to date, provoking a broad range of theoretical and practical problems that might hamper its wide spread adoption (Eland, 2004).

1.1.1 Agricultural Companies listed at the Nairobi Securities Exchange

Agriculture has been and remains the main economic activity in Kenya. According to the Library of Congress - Federal Research Division: Country Profile: Kenya, June 2007, "'the agricultural sector continues to dominate Kenya's economy. In 2006 about 75 percent of working Kenyans made their living on the land, compared with 80 percent in 1980. Agriculture is also the largest contributor to Kenya's gross domestic product (GDP). In 2005 agriculture, accounted for about 24 percent of GDP. The principal cash crops are tea. horticultural produce, and coffee; horticultural produce and tea are the main growth sectors and the two most valuable of all of Kenya's exports.

About one-half of total agricultural output is non-marketed subsistence production. However in the recent past we have seen companies come up to embrace agriculture as a business and is slowly transfonning the perception of agriculture as a subsistence activity to a vibrant economic activity. The table below tabulates the agricultural companies listed in the Nairobi Securities Exchange and their main line of business.

Table 1.1: Listed Agricultural Companies on the Nairobi Securities Exchange

Symbol	Company	Main area of Business
EGAD	Eaagads Limited	Coffee growing and sales
KAZU	Kakuzi Limited	Coffee, tea. passionlruit, avocados, citrus, pineapple, others
KAPC	Kapchorua Tea Company Limited	Tea growing, processing and marketing
LIMR	Limuru Tea Company Limited	Tea growing
RVP	Rea Vipingo Sisal Estate	Sisal
STC	Sasini Tea and Coffee	Tea, coffee
GWKL	Williamson Tea Kenya Limited	Tea growing, processing and distribution

Source:http://w\vw.securities.com/Public/companyprot]le

At the Nairobi Securities Exchange, the Agricultural Segment is made up of 3 companies (Kakuzi - specialized in Tea and Horticultural crops, Rea Vipingo plantations - specialized in Sisal and Sasini - specialized mainly in tea and coffee). These companies belong to the Main Investment Market Segment where the minimum authorized issued and fully paid up share capital is Kshs. 50.0 million. (Sterling Investment Bank, 2009)

In the Alternative Investment Market Segment, out of the 8 constituent companies, 5 are Agricultural sector-related. These are (Eaagads - Coffee, Williamson Tea Kenya - Tea. Kapchorua Tea - Tea, Kenya Orchards - fruits, preserves & juices and Limuru Tea - Tea) where the minimum authorized issued and fully paid up share capital is Kshs. 20.0 million. (Sterling Investment Bank, 2009)

In the following paragraphs the researcher expounds briefly on each of the companies. Sasini is one of the leading tea and coffee producers in Kenya. The Company is quoted on the Nairobi Stock Exchange (N.S.E.) through various wholly owned subsidiary companies. Sasini operations cover tea. coffee, dairy livestock, horticulture, tourism and export activities. (http://www.securities.com/Public/companyprofile/KE/Sasini_Tea____CoffeeLtden_2037000.html)

EAAGADS Limited is principally engaged in the growing and selling of coffee. During the year ended December 31, 2005, the area bearing coffee was 131 hectares. The ultimate holding company is Compagnie International De Culturers. Intercultures, S.A. (http://www.securities.com/Public/company-profile/KE/EAAGADS_LTD_en_2037019.html).

Kakuzi Limited is a Kenya-based company engaged in the cultivation, manufacture and marketing of tea. The Company is also engaged in the growing and marketing of avocados, livestock farming, growing of pineapples, growing of other horticultural crops and forestry development. Kakuzi Limited's subsidiaries include Estates Services Limited, Siret Tea Company Limited, and Kaguru (EPZ) Limited. Kakuzi Limited has a joint venture agreement with Del Monte Kenya Limited, for the growing of pineapples. (http://www.securities.com/Public/company-profile/KE/KAKUZI_LTD___en_2037020.html).

Williamson Tea Kenya Ltd. is a Kenyan company engaged in the cultivation, manufacture and sale of tea. The Company is also engaged in investment in property

and sale of generators. The Company's subsidiaries are Kaimosi Tea Estates Limited. Williamson Power Limited, Tea Manufacturing and Supplies Limited, Tea Properties Limited, Lelsa Tea Estates Limited and Tinderet Tea Estates (1989) Limited (http://www.securities.com/Public/companyprofile/KE/WlLLIAMSON_TEA_KENY A_LTD_en_2037027.html)

Kapchorua Tea Company Limited is a Kenyan company engaged in the cultivation, manufacture and sale of tea. The Williamson family of Britain has a controlling majority shareholding in Kapchorua Tea where it holds a 40 percent stake of the 3.9 million shares issued. (http://www.securities.com/Public/companyprofile/KE/ KAPCHORUA TEA COMPAN Y_LTD_en_203 7016.html)

The Limuru Tea Company Limited is a Kenyan company engaged in the growing of green leaf tea. The Company owns 275 hectares of tea land situated four kilometers to the east of Limuru Town. The Limuru Tea Company Limited is an outgrower to Unilever Tea Kenya Limited. Unilever Tea Kenya acts as the Company's managing agent in the growing, manufacturing, sales and marketing of its teas. The tea estate green leaf is manufactured in the Unilever Tea Kenya Mabroukie factory from where it is sold. (http://www.securities.com/Public/company-profile/KE/LlMURU_TEA_CO_LTD en_2036992.html)

REA Vipingo Plantations Limited was incorporated in Kenya in 1995 and was subsequently listed in 1996 on the Nairobi Securities Exchange. Today, it comprises the company, which owns the Vipingo estate and 4 wholly owned subsidiaries; Dwa

Estate Limited, which owns the Dwa estate, Amboni Plantations Limited, which owns the Spinning Mill in Tanzania, and Wigglesworth Exporters Limited, a warehousing and shipping operation based in Mombasa, Kenya.

With an annual sisal fibre production of over 16,000 tonnes, the company is by far the largest sisal producer in Africa. Other than some fibre that is used in the group's sisal spinning mill in Tanzania, all fibre produced is exported. (http://www.reavipingo.com/companyinfo.htm)

1.2 Research Problem

The adaptation to the new standards has affected many companies. From the Agricultural Companies point of view, the greatest effect is that the standard regulates how they must value their biological assets. Prior to IAS 41 the companies valued their assets at cost, but according to IAS 41 a biological asset should be measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs (iasb.org). The workload has increased since the standard is more specific of the requirements and disclosures by the Agricultural Companies.

The pressure on the companies increased because of the demand of fair value. Since the initial recognition in 1986 by FASB that show the need to have a fair value standard that would cover all assets and liabilities the exposure draft was released five years after work began in 2005. This proposal provided guidance for valuing assets and liabilities that are required to be measured at fair value under other pronouncements. The ultimate goal of the fair-value project was to improve comparability, consistency, and reliability of fair-value measurements by creating a

model that can be broadly applied to financial and non-financial assets and liabilities.

In 2001, the World Bank carried out an assessment of the accounting and auditing environment in Kenya (as cited in eStandardsForum. 2009. p.l). The Bank noted that Kenya had adopted International Accounting Standards (IASs), later renamed International Financial Reporting Standards (IFRSs) in 1998. thereby "closing the gap" between national and international accounting standards. According to the 2005 and 2006 self-assessments prepared by the Institute of Certified Public Accountants of Kenya (ICPAK) for the International Federation of Accountants (IFAC), international standards are adopted as drafted without any modifications, and the text of laws and regulations simply refers to IFRSs. As of 2006, all IFRSs in effect were adopted, states the 2006 ICPAK self-assessment (eStandardsForum, Kenya, 2009, pg. 5)

However, according to the World Bank report, there is insufficient information publicly available regarding the adoption of subsequent amendments to IFRSs. The 2006 United Nations Conference on Trade and Development (UNCTAD) report states that IFRSs are to be applied by all public interest entities and Small and Medium-size Enterprises. As far as enforcement of legal requirements is concerned, the UNCTAD pointed out that in practice the levels of non-compliance with IFRSs are quite high. In addition. UNCTAD reported that some industry specific regulation in Kenya and IFRS-based requirements are not compatible and thus universal adherence to IFRSs has not been achieved.

To fast track compliance with IFRS, ICPAK established an award known as the Financial Reporting (*FiRe)* Award in 2002 in order to encourage the use of

International Financial Reporting Standards (1FRS). This award involved the evaluation of financial statements voluntarily submitted by companies, to gauge their compliance with the requirements of 1FRS. In 2005, six years after implementation of the IFRS in Kenya, there was no single company which exhibited 100 per cent compliance with IFRS out of a total of 84 companies who submitted their financial statements for review (UNTAD, 2006, p. 8).

The 2005 ICPAK compliance levels report are as shown in the table below, where 100 per cent denotes full compliance with all the requirements of IFRS including disclosure requirements and vice versa.

Table 1.2: Compliance with IFRS recognized in the 2005 *FiRe* awards

Compliance levels achieved	**Number of companies achieving compliance levels**				
	Insurance sector	**Banking sector**	**All other companies**	**Total**	
				No.	**In percentage (%)**
Above 80%	3	0	10	13	16
60% to 79%	12	10	15	37	44
50% to 59%	7	1	3	11	13
Below 50%	3	15	5	23	27
Total No.	**25**	**26**	**33**	84	**100**

Source: UNTAD, 2006, **p.** 8

From the statistics in the table above, while Kenya adopted the use of IFRS in 1999. the levels of non-compliance were quite high. The above companies that participated were quite large and about 45 of them listed on the Nairobi Stock Exchange. Given the scenario above, it was automatically expected that the level of compliance among

the other private companies and small and medium enterprises was likely to be quite low (UNTAD, 2006. p. 8).

The data compiled by 1CPAK through the FiRe award was generalized to all the IFRS across all industries based on the volunteering companies. From table 1 above there were no disclosures of the level of compliance by agricultural listed companies. The focus was biased towards financial institutions. It is from this backdrop that the researcher sort to focus on the extent of compliance with IAS 41 by listed agricultural companies on the Nairobi Securities Exchange.

This study therefore sought to address the following research question: what is the extent of compliance with the International Financial Reporting Standard number 41 (IAS 41) by limited agricultural companies listed on the Nairobi Security Exchange?

1.3 Objective of the study

To examine the extent of compliance by limited Agricultural companies listed in the Nairobi Security Exchange with IAS 41.

1.4 Value of the Study

Findings of this study is important to academicians and future researchers who would Find it necessary to use the findings as the basis for conducting related studies in Kenya and other regions in the world.

It is also important to various bodies within the legal and institutional frameworks, charged with the responsibility to oversee compliance of the IAS/IFRS in Kenya, for

example the Institute of Certified Public Accountants of Kenya (ICPAK), Nairobi Securities Exchange (NSE) and the Capital Markets Authority (CMA).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter gives an outline of the literature review the researcher used to justify the research problem. This encompasses a theoretical review, accounting standards governing the reporting framework for agricultural companies as well as previous research findings.

2.2 Theoretical Review

Accounting theory encompasses assumptions, methodologies and frameworks used in the study of financial principles. This involves a review of the historical foundations of accounting practices, as well as the way in which accounting practices are verified and added to the regulatory framework that governs financial statements and financial reporting (Gibson 2007).

The framework sets forth a system of interrelated objectives and underlying concepts that serve as the basis for evaluating existing standards of financial accounting and reporting. The objectives of financial reporting for business entities, covered in Concept Statement Number One, issued in 1978 by FASB include: Financial reporting is intended to provide information useful in making business and economic decisions: The information should be comprehensive to those having a reasonable understanding of business and economic activities: Financial reporting should be helpful to users in assessing the amounts, timing and uncertainty of future cash flows: The primary focus is information about earnings and its components: and information

should be provided about the economic resources of an enterprise and the claims against those resources (Gibson 2007).

Relevance and reliability make accounting information useful for decision making. Information is relevant when it can influence the decisions of users that it is capable of making a difference in the decision. The information need to have predictive and feedback value and must be timely. Information is reliable when it is free from material errors and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. To be reliable, information must be verifiable, subject to representational faithfulness and neutral (Gibson 2007).

Understandability is an essential quality of information provided in the financial statements. Users are assumed to have a reasonable knowledge of business and economic activities and accounting and willingness to study the information with reasonable diligence. Comparability which includes consistency interacts with relevance and reliability to contribute to the usefulness of information (Gibson 2007). Users must be able to compare the financial statements of an enterprise over time in order to identify trends in the financial position and performance. Users must also be able to compare financial statements of different enterprises in order to evaluate their relative financial position, performance and changes in the financial position.

The purpose of establishing qualitative characteristics of accounting is to provide a framework for accountants when making choices regarding measurements and disclosure in financial reports. Such a framework, however, does not provide obvious

solutions to accounting problems but simply identifies aspects that should be considered when reaching a solution.

Concept Statements Number Five issued in 1984 (Gibson 2007) covers Recognition and measurement in financial statements. It states that for an item to be recognized, it should meet four criteria's. These are, Definition: that is the item fits one of the definitions of the elements of financial statements, Measurability: that is the item has a relevant attribute measurable with sufficient reliability, Relevance: that is information related to the item is relevant and Reliable: that is information related to the item is reliable. The Concept Statement also identifies five different measurement attributes. These are historical cost, current cost, current market value, net realizable value and present value of future cash flows.

According to Gibson 2007, the Financial Accounting Statements Board (FASB) Conceptual Framework for accounting and reporting represents the most extensive effort undertaken to provide a conceptual framework for financial accounting.

2.2.1 Usefulness of the Regulatory Framework

The framework presents one of the most important guidelines in financial reporting in that: It assists in the development and issuance of coherent standards and practices: It increases the understanding and confidence of financial statements users: Its enhances comparability among financial statements of different companies: It assists in the resolution of new and emerging practical problems by providing a frame of reference for resolving accounting issues: And it defines the bounds of judgment in preparation of financial statements.

It should however be noted that no framework is universally accepted in practice. This is due to various factors such as the variety of users that financial statements serve is so wide, the time and resources required to develop a universally agreed conceptual framework makes it impossible, accounting conventions that underlie financial reporting cannot be proved to be correct and the development of an accounting standard may be influenced by other factors than a conceptual framework.

2.3 Reference to International Accounting Standard 41(IAS 41)

IAS 41 prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activities. This Standard should be applied to account for the following when they relate to agricultural activity: biological assets; agricultural produce at the point of harvest; and government grants covered by IAS 41 paragraphs 34-35.

This Standard does not apply to: land related to agricultural activity (see IAS 16, Property, Plant and Equipment, and IAS 40, Investment Property); and intangible assets related to agricultural activity (see IAS 38. Intangible Assets). This Standard is applied to agricultural produce, which is the harvested product of the enterprise's biological assets, only at the point of harvest. Thereafter. IAS 2, Inventories, or another applicable International Accounting Standard is applied. Accordingly, this Standard does not deal with the processing of agricultural produce after harvest; for example, the processing of grapes into wine by a vintner who has grown the grapes (iasb.org).

While such processing may be a logical and natural extension of agricultural activity, and the events taking place may bear some similarity to biological transformation, such processing is not included within the definition of agricultural activity in this Standard (iasb.org).

The following terms are used in this Standard with the meanings specified: Agricultural activity is the management by an enterprise of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets. Agricultural produce is the harvested product of the enterprise's biological assets. A biological asset is a living animal or plant. Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset. A group of biological assets is an aggregation of similar living animals or plants. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes. An active market is a market where all the following conditions exist: the items traded within the market are homogeneous; willing buyers and sellers can normally be found at any time; and prices are available to the public. Carrying amount is the amount at which an asset is recognized in the balance sheet. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (iasb.org).

2.3.1 Recognition of Biological asset/Produce

An enterprise should recognize a biological asset or agricultural produce when, and only when: the enterprise controls the asset as a result of past events; it is probable that future economic benefits associated with the asset will flow to the enterprise; and

the fair value or cost of the asset can be measured reliably. In agricultural activity, control may be evidenced by. for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning. The future benefits are normally assessed by measuring the significant physical attributes.

Biological asset should be measured: on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs. Biological produce (harvested) should be measured (in all cases); at the point of harvest: at fair value less estimated point-of-sale costs. Point-of-sale costs include: Commissions to brokers/dealers; Levies by regulatory agencies and commodity exchanges; transfer taxes and duties. Point-of-sale costs exclude: transport and other costs necessary to get assets to a market.

2.3.2 Fair Value Determination

Fair value determination may be facilitated by grouping biological assets or produce according to significant attributes (age or quality). Attributes corresponding to the attributes used in the market are then selected as a basis for pricing. Example: Fair Value of livestock is determined by age.

For fair value determination the following conditions must be fulfilled: If active market exists - use quoted price; If no active market - use one or more of the following; the most recent market transaction price; market prices for similar assets with adjustment to reflect differences; sector benchmarks for example value of cattle

expressed per kilogram of meat. If market-determined prices/values are not available for biological asset in its present condition then use present value of expected net cash Hows from the asset discounted at a current market-determined pre-tax in determining future value. Cost approximates future value when: little biological transformation has taken place or the impact of biological transformation on price is immaterial.

Presumption that fair value can be measured reliably can be rebutted only on initial recognition for biological asset for which market-determined values are not available, and alternative estimates are unreliable In this case biological asset will be measured at its costs less any accumulated depreciation & any accumulated impairment losses .(Refer to IFRS related to IAS 2. Inventories, IAS 16, Property. Plant and Equipment, and IAS 36. Impairment of Assets.

Gain and Losses for biological asset may arise: on initial recognition of biological asset at fair value less estimated point-of-sale costs, and from a change in fair value less estimated point-of-sale costs of biological asset. Gains and Losses should be included in net profit or loss for the period in which it arises. Gain and Losses for agricultural produce may arise: on initial recognition of agricultural produce at fair value less estimated point-of-sale costs (as a result of harvesting). Gain and Losses should be included in net profit or loss for the period in which it arises.

2.3.3 Government Grants

Unconditional Government Grants related to biological assets are recognized as income only when the Government Grants becomes receivable. Conditional

Government Grants are recognized as income only when the conditions are met. Government Grants related to biological assets with no fair value should be recorded at costs. IAS 20-Accounting for Government Grants and Disclosure is applied.

2.3.4 Financial Disclosures

An entity should disclose the aggregate gain or loss arising during the period on initial recognition of biological assets and agricultural produce [IAS41.40J; the aggregate gain or loss arising during the period from changes in fair value, less estimated point-of-sale costs from the subsequent measurement of biological assets [IAS41.40J; the fair value less estimated point-of-sale costs of agricultural produce harvested during the period [IAS41.48]; a reconciliation of changes in the carrying amounts of biological assets between the beginning and the end of the current period under the fair value and cost approaches [IAS41.50]; and the net gain or loss recognised on the disposal of biological assets where they are measured at cost [IAS41.55].

2.3.5 Non-financial Disclosures

An entity should present a description of each group of biological assets. This may take the form of a narrative of quantitative description [IAS41.41]: describe the nature of its activities involving each group of biological assets [IAS41.46(a)]; disclose physical quantities of each group of biological assets at the end of the period [IAS41.46(b)(i)]; disclose the output of agricultural produce during the period [IAS41.46(b)(ii)]; describe the methods and significant assumptions applied in determining the fair value of each group of agricultural produce, and each group of biological assets [IAS41.47], disclose the existence [IAS41.49(a)] of biological assets

whose title is restricted and/or pledged as liabilities: the amount of commitments for biological assets [IAS41.49(b)]; h) describe the financial risk management strategies related to agricultural activity [IAS41.49(e)]; where during the period the fair value becomes the measurement basis, the entity should disclose that fact and include an explanation for the change and the effect of the change [1AS41.56]; and describe the nature and extent of government grants recognised, unfulfilled conditions attaching to such grants and any decreases expected in the level of government grants [IAS41.57].

2.3.6 Other Disclosures

IFRS require additional disclosures for biological assets where the entity cannot measure fair value reliably and adopts the cost (less any accumulated depreciation) method. In this case the entity must disclose [IAS 41.54]: a description of the biological assets; an explanation of why fair value cannot be measured reliably; a range of estimates where fair value is likely to be; the depreciation method used; and the useful lives and the gross carrying amount of the assets at the beginning of the period.

2.4 Empirical Findings

A large number of IAS adopters are from Europe; however Canada and the Middle East are also well represented. Cairns (1999) reports that the accounting in Europe have historically been perceived to be different from and more flexible than the IASs. He also notes that it has often been possible for European companies to choose options within their domestic GAAP and IASs. The reduction in the flexibility (due in part to the IASC's compatibility/improvements project) once available with IAS makes this "dual compliance" more difficult to achieve. Cairns also points out that

some companies (e.g. the Swedish firms) had dropped their reference to the use of IAS after their countries joined the European Union (EU). The motivation to comply with the IAS no longer existed due to the EU member stock exchanges allowing the use of domestic GAAP financial statements.

Dumontier and Raffoumier (1998) found that among the swiss companies certain firm characteristics made it more likely that a firm was reporting under IAS. Specifically, the authors found that, among other things, firm size increased the likelihood that the Swiss company was using IAS. Those companies referring to IAS, yet admitted that there were exceptions to the IAS disclosure requirements, were classified as being in the IAS group. Dumontier and Raffoumier (1998) justified the placement of these non-conforming firms into the IAS group by stating that "these companies which referred to IAS but with some disclosure exceptions were nevertheless classified in the IAS group because it was apparent that most Swiss firms which declared compliance with IAS did not, in fact, satisfy the entire set of disclosure requirements of the IASC" (p. 227).

Street and Gray (2000), Street and Bryant (2000), Tower et al. (1999), Street et al. 1999 and Cairns (1999) gave the initial examples of significant non-compliance among companies purporting to use IAS(as cited in Chatham. 2008, prior research, para. 6). Street et al. (1999) looked specifically at compliance with IASs issued as a project of IASC's comparability project. They found out that non compliance is particularly common when the sample companies present; extraordinary items; the revaluation of property, plant and equipment: pension disclosures; the valuation of

inventories; the restatement of foreign entities for companies operating in hyperinflationary economies and the amortization of goodwill.

These indications of noncompliance troubled Cairns (1999). He suggested regulatory authorities should take disciplinary action against those audit firms that ignore obvious noncompliance with IAS and especially when these firms issue unqualified opinion or reference IAS in a misleading manner. This early findings of noncompliance may have motivated researchers to move away from assuming compliance when a firm simply stated that its financial statement were in conformance with IAS. Researchers have now incorporated more sophisticated methods for measuring the degree of IAS compliance (Cairns, 1999).

Tower et al. (1999) endeavored to provide an even more precise measure of IAS compliance by examining it as a continuous variable. They coded each of 512 "compliance points" within a total of twenty six IASs according to the following points. No compliance with the relevant IAS issue; Compliance with the relevant IAS issue: Compliance with IAS benchmark on a particular issue; Compliance with IAS allowable alternative on a particular issue; Compliance with both the IAS benchmark and allowable alternative; Compliance not disclosed and not readily discernable; and non-compliance issue.

They reported two problems with this kind of coding. First a number of items were not applicable to some reporting firms (e.g IAS 11 on construction contracts) and secondly there was considerable non-disclosure with regard to many IAS rules. Towers et al. also examined the determinants of IAS compliance by regressing the

level of compliance on a number of firm characteristics. The found out that among the variables being studied, the home country of the reporting firm is the characteristic that mostly heavily influences the level of compliance.

A study of 43 plantation entities on Bursa Malaysia showed that companies disclosed biological assets separately on the face of the balance sheet as required by FRS 101. However very few companies used fair value to value their biological assets instead following the capital maintenance and amortization methods under the repealed MAS 8 - accounting for pre-cropping costs in determining their value. Various concerns of not implementing IAS 41 were attributed to difficulty in identifying the attributes of biological assets, the cost of fair valuation and volatility and/or the lack of relevant information (Bhakir, 2010).

Ernst and Young carried out a survey in South Africa of 46 JSE-Listed companies in 2005 to investigate the IFRS implementation status of companies in South Africa. The survey results indicated Ninety six percent of the companies surveyed were not in compliance with IFRS reporting for their 2005 interim results and only thirty three per cent were on track with the overall progress of the IFRS 2005 implementation (UNCTAD, 2008, P.119).

In 2006, Frnst and Young conducted a follow-up survey to assess the implications and impact of South Africa's IFRS transition. The survey highlighted the challenges south African companies faced with the adoption of IFRS which included greater complexity than had been anticipated, high costs, poor understanding of the reasoning

behind the transition and potential confusion about company performance information (UNCTAD, 2008, P. 119).

Kenya has not been left behind in the urge for international standardization on financial reporting. In 1998, the Council of the Institute of Certified Public Accountants of Kenya (ICPAK) adopted the International Financial Reporting and Auditing Standards for use in Kenya. Accordingly therefore, all companies were required to prepare financial statements based on International Accounting Standards (IAS) for periods beginning 1 January 1999.

ICPAK established an award known as the Financial Reporting *(FiRe)* Award in 2002 in order to encourage the use of International Financial Reporting Standards (IFRS). This award involves the evaluation of financial statements which have been voluntarily submitted by companies, to gauge their compliance with the requirements of IFRS. In 2005, six years after implementation of the IFRS in Kenya, there was no single company which exhibited 100 per cent compliance with IFRS out of a total of 84 companies who submitted their financial statements for review (UNTAD. 2006, p. 8)-

The 2005 ICPAK compliance levels report are as shown in the table below, where 100 per cent denotes full compliance with all the requirements of IFRS including disclosure requirements and vice versa.

Table 2.1: Compliance with IFRS recognized in the 2005 *FiRe* awards

Compliance levels achieved	Number of companies achieving compliance levels				
	Insurance sector	Bunking sector	All other companies	Total	
				No.	In percentage (%)
Above 80%	3	0	10	13	16
60% to 79%	12	10	15	37	44
50% to 59%	7	1	3	11	13
Below 50%	3	15	5	23	27
Total No.	**25**	**26**	**33**	**84**	**100**

Source: UNTAD. 2006, **p. ***

From the statistics in the table above, while Kenya adopted the use of IFRS in 1999, the levels of non-compliance are quite high. The above companies that participated were quite large and about 45 of them listed on the Nairobi Securities Exchange. These companies had the resources to recruit competent and highly trained professionals and in the case of the listed ones are required to comply with IFRS when preparing financial statements. Given the scenario above, it would be automatically expected that the level of compliance among the other private companies and small and medium enterprises is likely to be quite low (UNTAD, 2006, p. 8).

During the Intergovernmental working group of experts on international standards of accounting and reporting on its twenty- third session, held at the Palais des Nations, Geneva, the representative to Kenya elaborated on various mechanisms IC'PAK. had used to overcome IFRS implementation challenges. These included opening a help desk at ICPAK and providing IFRS. However the help desk had been widely and

frequently used in the initial stages of the countries adoption of the IFRS. In recent years it had often been used by small audit firms. This raises concerns as to the commitment by companies to comply with the IFRS (UNTAD, 2006, p.9).

It is from this backdrop that the researcher carried out the research on the extent of compliance with IAS 41 by listed agricultural companies on the Nairobi Securities Exchange.

CHAPTERTHREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology which the researcher used. Aspects covered included research design, population, data collection and data analysis methods.

3.2 Research Design

Research design refers to the way a study is planned and conducted, the research procedures and techniques employed to answer the research problem (United Nations Centre for Regional Development, 2004).

The research was studied through the use of descriptive survey. Descriptive research portrays an accurate profile of persons, events, or situations. Surveys allow the collection of data from sizable population. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics. The researcher used descriptive survey to fulfill the objectives of this study.

3.3 Population of Study

The population of this study was all the listed Agriculture producing companies on the Nairobi Security Exchange (NSE). The total number of the companies was seven (See appendix III). Due to the few numbers of the listed companies a survey was done on all the companies.

3.4 Data Collection

The study used primary data. Due to the few numbers of listed agricultural companies on the Nairobi Securities Exchange, the researcher carried out a census of all the limited agricultural companies listed on the Nairobi Securities Exchange. Data collection was through a structured questionnaire. The questionnaire was divided into two sections. Section one focused on general information while section two focused on the extent of compliance with IAS 41 (see appendix II).

3.4.1 Data Validity and Reliability

Data was analyzed from the questionnaires and the year 2010 audited accounts of the limited agricultural companies listed on the Nairobi Securities Exchange. These audited accounts were sourced directly from the respective organizations for the purpose of reliability and validity of the information gathered.

3.5 Data Analysis

Anderson and Poole (2001) postulates that once data has been collected, the researcher must be able to interpret the data reliably. The process can involve summarizing the data to a temporary manageable length to categorize, identify themes, analyze and assess. It is from this point that the researcher enumerated the meaning within the data and related it to findings from previous studies to see if these supported existing research.

Descriptive statistics were used to summarize the data. These included percentages and graphical presentations which were used to present the research findings for ease of understanding and analysis. Inferences were drawn from the results obtained.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

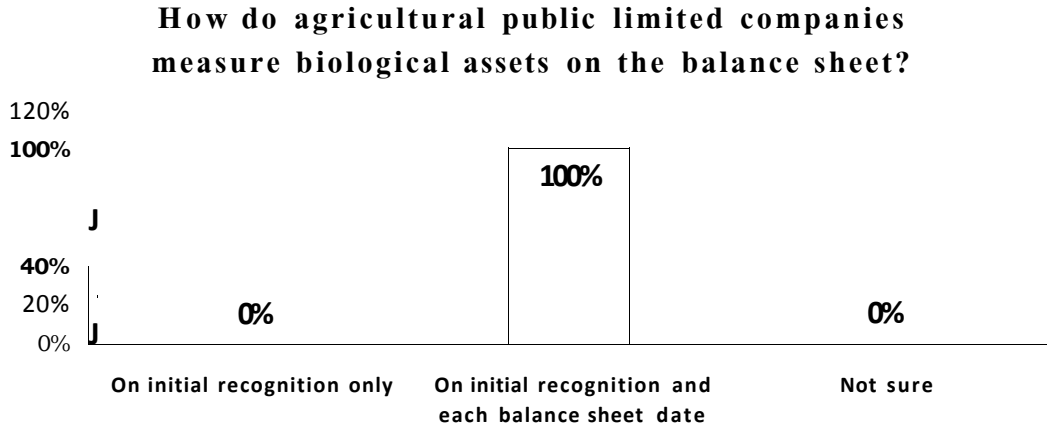
This chapter presents the findings on the main objective of the extent of compliance with IAS 41 by limited agricultural companies listed in the Nairobi Security Exchange (NSE). The research was conducted by analyzing the year 2010 audited accounts of the listed agricultural companies on the Nairobi Security Exchange.

4.1 Extent of Compliance with IAS 41

The findings in this section were categorized into six sections. These are recognition, fair value determination, government grants, financial disclosures, non-financial disclosures and other disclosures.

4.1.1 Recognition

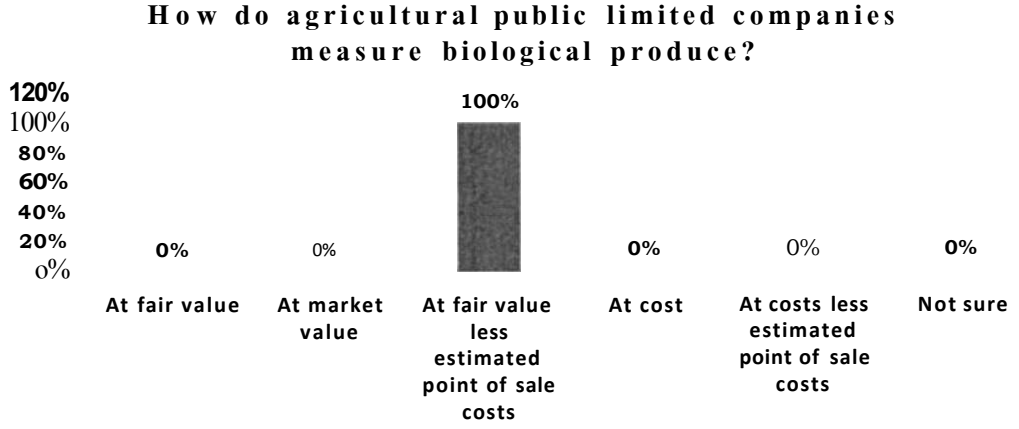
Figure 4.1: Measurement of biological assets on the balance sheet



Source: Research Findings

Among the companies analyzed the most prevalent measure of biological assets on the balance sheet was through initial recognition and at each balance sheet date. Figure 4.1 above gives a pictorial presentation of the research findings.

Figure 4.2: Measure of biological produce



Source: Research Findings

Among the companies analyzed with respect to measurement of biological produce the most prevalent measure was at fair value less estimated point of sale costs. Figure 4.2 above gives a pictorial presentation of the research findings.

The research findings from figure 4.1 and figure 4.2 above are consistent with IAS 41 which provides that biological assets should be measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs and biological produce should be measured (in all cases), at the point of harvest, at fair value less estimated point-of-sale costs.

4.1.2 Measurement of Fair Values

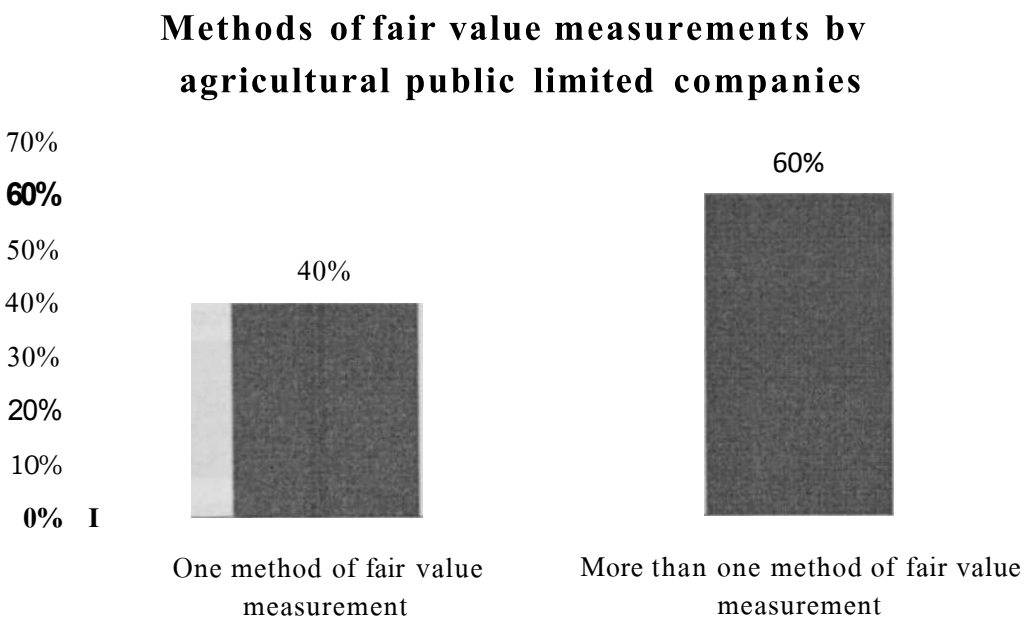
Table 4.1: Determination of fair values

How do Public limited companies determine their fair values?	%
Use quoted market prices	0%
Use of the most recent market transaction price	0%
Market prices for similar assets	0%
Sector benchmarks	0%
Present value of the expected net cash inflows	40%
Use of the most recent market transaction price, market prices for similar assets and present value of expected net cash inflows	20%
Use of the most recent market transaction price and present value of the expected net cash flow	20%
Use quoted market prices and present value of the expected net cash flow	20%
Not sure	0%
Total	**100%**

Source: Research Findings

Table 4.1 above gives the research findings of the various methods applied by agricultural companies to determine their fair values. 40% of the companies analyzed used the present value of the expected net cash flows to determine their fair values. Consequently 60% used a combination of the most recent market transaction price, market prices for similar assets, quoted market prices and present value of expected net cash Hows. This is indicative of the diversity given by IAS 41 on the various methods applicable in fair values determination.

Figure 4.3: Methods of fair value determination



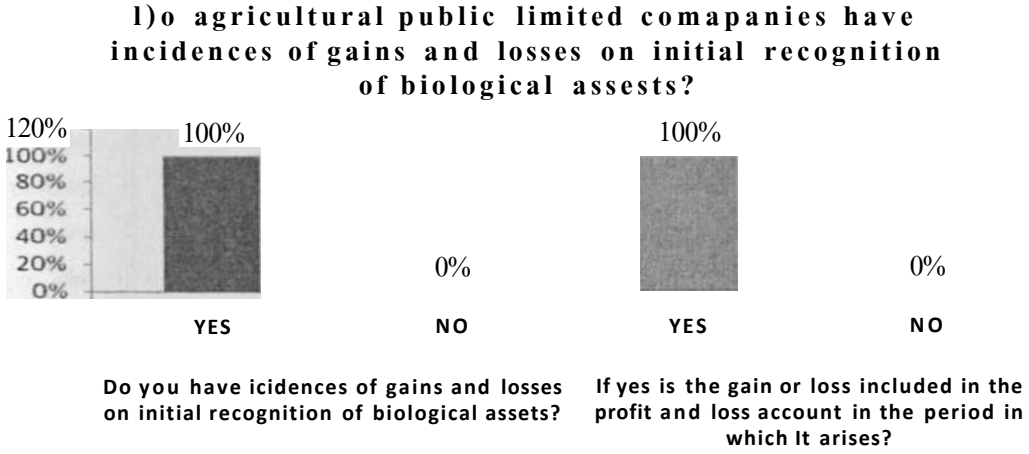
Source: Research Findings

From the research findings in figure 4.3 above the researcher noted that 40% of the companies used only one method of fair values determination. That is the present value of expected future cash flows. This method was applied to a range of biological assets which included tea bushes, coffee trees, livestock and forest timber. 60% of the other companies determined their fair values for the same range of biological assets with different measurement methods. For example one of the companies determined its fair value for livestock through the use of the market prices of similar assets and use of the most recent market transaction price for tea bushes.

In comparing the accounts of these companies, differences may arise due to the approaches applied in the determination of their individual fair values of similar biological assets. This would pose a challenge to comparability of accounts of similar

companies as a result of these different approaches used in detemiining their fair values.

Figure 4.4: Gains and losses on initial recognition of biological assets

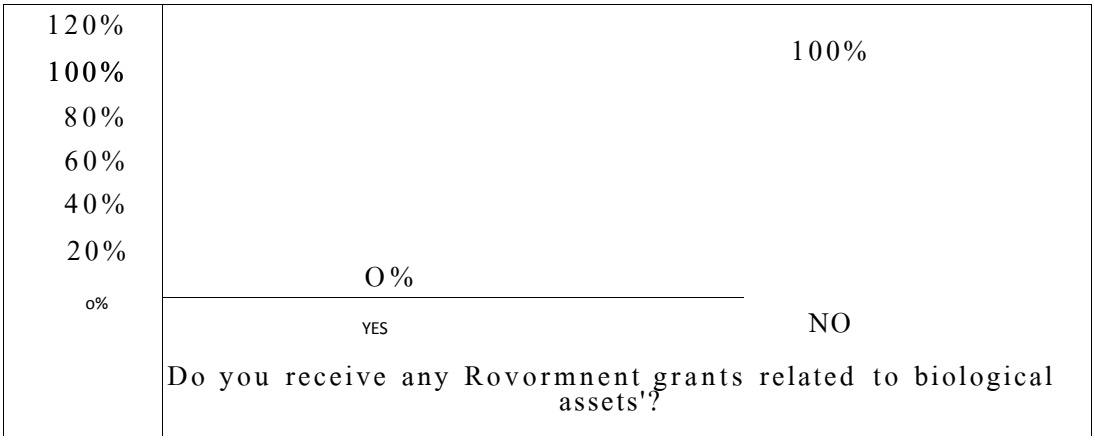


Source: Research Findings

The research findings were indicative that all the companies analyzed had gains and losses on initial recognition of biological assets and were consequently included in the profit and loss account in the period in which they arose. Figure 4.4 above gives a pictorial presentation of the analysis of findings. IAS 41 provides that gains and losses on initial recognition of biological assets or biological produce should be included in the net profit for the period in which they arise.

4.1.3 Government Grants

Figure 4.5: Government grants for agricultural public limited companies

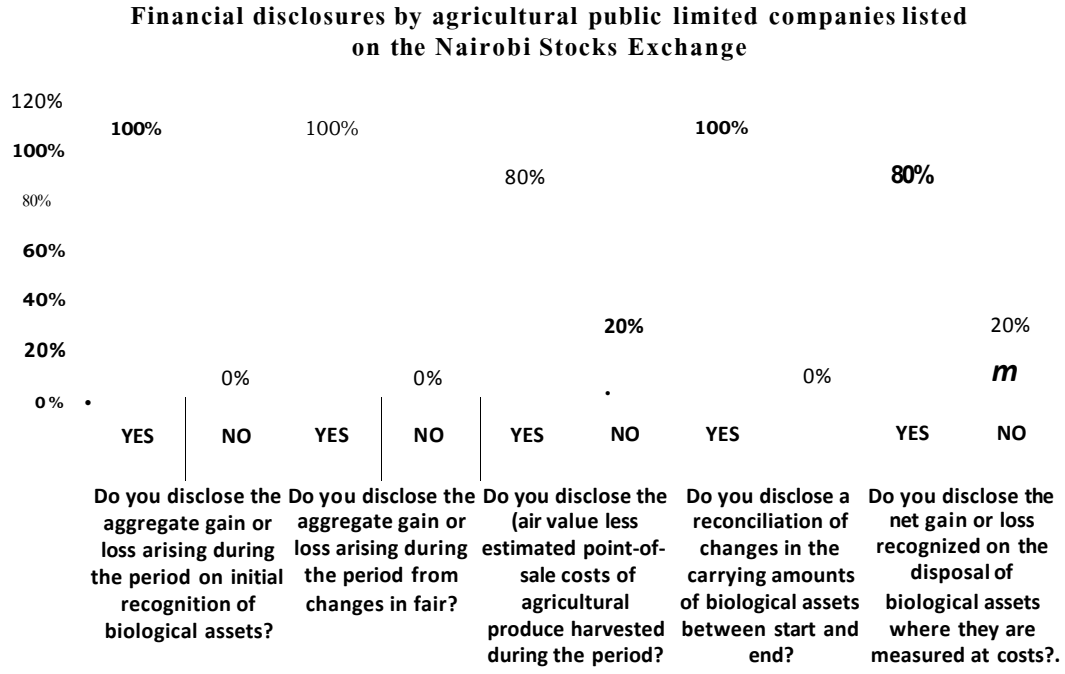


Source: Research Findings

From figure 4.5 above non of the companies analyzed received government grants during the 2010 financial year under review. There was however no indication that there was such grants that had either been received in the past or a future expectation of such grants. Hence the requirement of how to present government grants in the company accounts was not applicable in this case.

4.1.4 Financial Disclosures

Figure 4.6: Financial disclosures by agricultural public limited companies



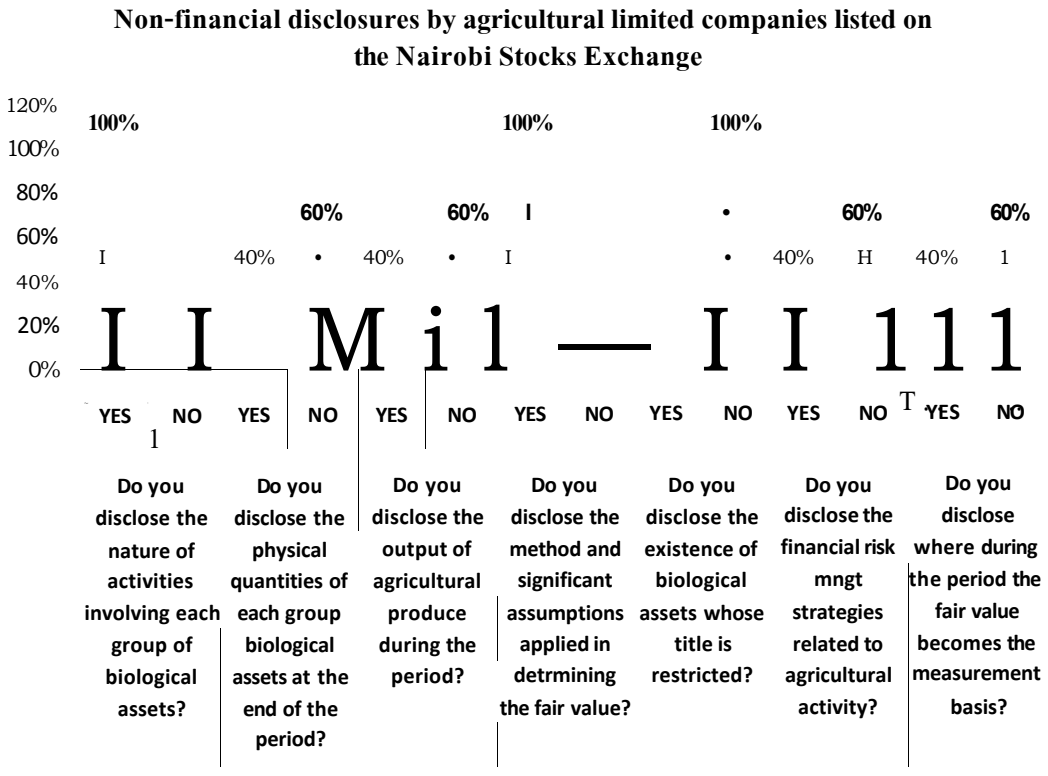
Source: Research Findings

The research sort to find out the extent of compliance in this section of financial disclosures by agricultural companies. The research findings indicated that all the company accounts analysed complied with the diclosure of the aggregate gain or loss arising during the period on initial recognation of biological assets, diclosure of the aggregate gain or loss arising during the period from changes in fair values less estimated point-of-sale costs from the subsequent measurement of biological assets and the diclosure of a reconciliation of changes in the carrying amounts of biological assets between the beginning and the end of the current period under the fair value and cost approaches.

However the researcher was not able to directly deduce information on certain aspects of financial diclosures from some of the company accounts analyzed. These financial disclosures included the diclosure of the fair value less estimated point-of-sale costs of agricultural produce harvested during the period and the net gain or loss recognised on the disposal of biological assets where they are measured at cost. As per figure 4.6 above only 80% of the companies analyzed complied with this aspect of the standard while 20% were deemed non compliant.

4.1.5 Non-financial Disclosures

Figure 4.7: Non financial disclosures by agricultural public limited companies



Source: Research Findings

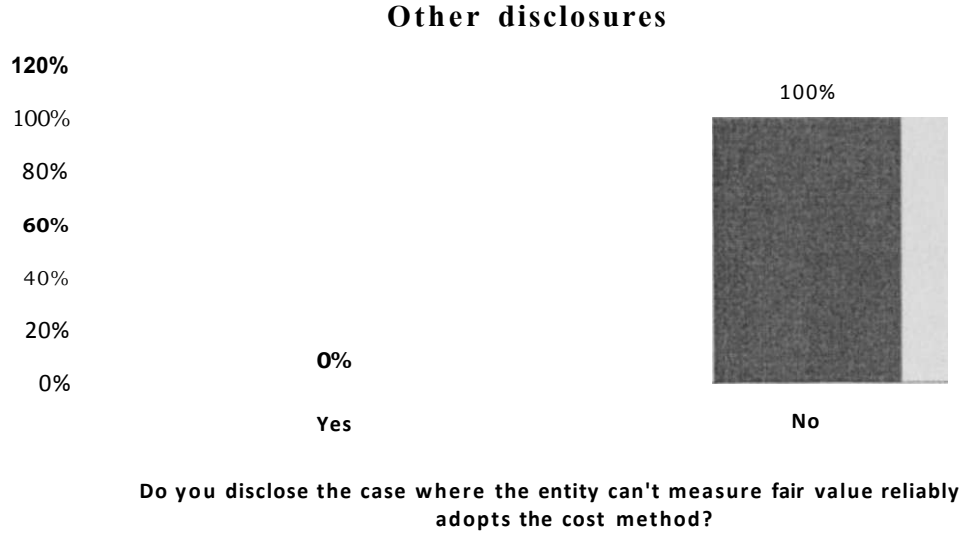
In this section the research sort to find out the extent of compliance with respect to non-financial disclosures by agricultural companies. The research findings indicated

the highests levels of non compliance in this section as seen from figure 4.7 above. All the companies complied with the diclosures on the nature of activities involving each group of biological assets and the methods and significant assumptions applied in determining the fair values.

However only 40% of the companies complied with the diclosure of physical quantities of each group of biological assets at the end of the period while 60% did not comply with this sestion of the standard. 60% of the companies did not comply with the standard on diclosure of output of agricutural produce during the period while only 40% of the companies complied with this section of the standard. Non of the companies diclosed the existence of biological assets whole title was restricted and /or pledged as liabilities and the amount of commitments for biological assets. 60% of the companies did not diclose the financial risk management strategies releted to agricultural activites while only 40% of the companies complied to this section of the standard. 60% of the companies did not diclose where during the period the fair value becomes the measurement basis while only 40% of the companies complied with this section of the standard.

4.1.6 Other Disclosures

Figure 4.8: Other disclosures by agricultural public limited companies

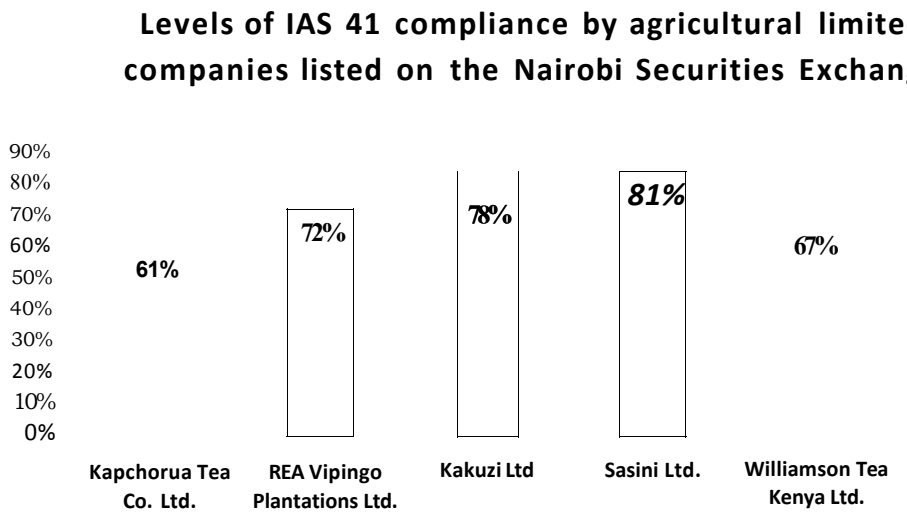


Source: Research Findings

In this section the research sort to find out the extent of compliance with respect to other disclosures by agricultural companies as outlayed by IAS 41. The research findings as per figure 4.8 above indicate that non of the companies complied with this section of the standard. From the research analysis no disclosures were found in the accounts with regard to whether there were incidences when fair values could not be measured reliably or if they were all measured reliably a diclosure to that effect indicating that all the fair values were measured reliably.

4.2 Overall IAS 41 Compliance Levels

Figure 4.9: IAS 41 compliance levels based on response to questionnaire



Source: Research Findings

The objective of this research was to establish the extent of compliance with IAS 41 by limited agricultural companies listed on the Nairobi Securities Exchange. This objective is reflected in figure 4.9 above. Five companies listed on the Nairobi Securities Exchange were analyzed and the findings of the research indicate that none of the companies had 100% compliance. The levels of compliance ranged from 61% and 83%. These levels of non compliance were mostly attributed to high levels of non compliance with non-financial disclosures and other disclosures as outlined in IAS 41.

4.3 Interpretation of Findings

Kenya's case is not exceptional with regard to compliance with IFRS. Research findings by Ernst and Young. 2005, indicated there was a 96% non compliance with

IFRS by Forty Six Johannesburg Securities Exchange listed companies (UNCTAD, 2008, p. 119). Accordingly ICPAK 2005 FiRe award established that there was no single company at the time that had achieved 100% compliance with IFRS. In fact only thirteen companies out of the Eighty Four surveyed had 80% and above compliance with IFRS.

The research findings revealed that the 100% level of compliance with IAS 41 by agricultural companies has not yet been attained. From the research findings only one company had attained above 80% compliance with IAS 41 with the rest below 80% compliance levels. These levels of non compliance were attributed to the high level of non compliance in the areas of non financial disclosures and other disclosures.

As cited by Cairns (1999), regulatory authorities should take disciplinary action against those audit firms that ignore obvious noncompliance with IFRS and especially when these firms issue unqualified opinion. Though it is the responsibility of the companies to prepare financial statements which comply with IFRS, the audit firms act as oversight bodies that independently verify that these companies have actually complied with the IFRS.

The NSE through its listing manual sets guidelines which companies seeking to be listed must comply with. The listing manual, part five, statutory requirements (provisions under the capital markets (securities) (public offers, listing and disclosures) regulations. 2002), under the first schedule on eligibility requirements for public offering of shares and listing enumerates the criteria for the MIMS and AIMS. One of the criteria for eligibility is availability and reliability of financial records. The issuer should have published audited financial statements complying with International Accounting Standards (IAS) (Kibuthu G W, 2005).

NSE and the CMA also have their compliance departments and any companies not complying with the statutory requirements (provisions under the capital markets (securities) (public offers, listing and disclosures) regulations, 2002) should be reported. May be CMA should have a policy change which should reduce the infiltration of non complying companies to trade on the NSE.

From the 2010 Fire award report, areas of ISAs and IFRSs non compliance, the following non compliance issues of IAS 41 were reported; failure to adopt !AS 41 despite having biological assets; changes in fair value of biological assets taken through Statement of changes in Equity instead of profit and loss account; and failure to provide a reconciliation for biological assets (The FiRe Award report. 2010). Though the research findings revealed that listed agricultural companies have now adopted IAS 41, it still remains a challenge to fully implement the full requirements of the standards.

The fire award executive committee comprises of the chief executives of the three promoters; ICPAK., CMA and NSE responsible for overall policy and strategic direction of the Awards (The FiRe Award report, 2010). It would be rational if the three bodies in their capacities as bodies charged with the responsibilities of IFRS implementation and compliance, work closely together to synchronize their policies on IRFSs compliance. They should come up with a common blue print on how this will be achieved with clear time lines.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the conclusions based on the findings of the research analysis, recommendations, suggestions for further research and limitations of the study.

5.2 Summary

The objective of this project research was to establish the extent of compliance with IAS 41 by listed agricultural Companies on the Nairobi Securities Exchange. To achieve this objective, the researcher carried out a background review on IAS 41 under chapter one. Under chapter two the researcher carried out literature review on past research findings under IAS 41 to establish the research gap and set a basis for the research problem. Under chapter three the researcher enumerated the research methodology of the research which included the research design, population of the study, data collection criteria and the data analysis.

Under chapter four an analysis of data collected from selected companies on the Nairobi Securities Exchange was done. The analysis was categorized into sections of various disclosures according to IAS 41. The first section was on recognition of biological assets and biological produce on the balance sheet. All the companies analyzed complied with this section of the standard.

The second section was on fair value determination. All the companies complied with this section of the standard. However it is worth noting that the research findings revealed that companies varied in their fair value determinations of similar biological assets and biological produce. The third section was on financial disclosures. All the

companies analyzed substantially complied with the disclosure with only about 20% non compliance level.

The fourth section was on non financial disclosures. This section of the standard portrayed high levels of non compliance by all the companies analyzed. The non compliance level was estimated at about 40% in this section. The last section was on other disclosures. From the research findings none of the companies analyzed had disclosures to indicate compliance with this requirement by IAS 41. This comprised of 100% non compliance with the standard.

5.3 Conclusion

The research finding established that there were none compliance levels of between 61% and 83% by listed agricultural companies on the Nairobi Security Exchange. The findings confide with a publication by Wokabi C. on the Daily Nation, Tuesday November 2011, Smart Company pg.5 which stated "poor financial disclosure, where reporting is done only to meet the basic minimum requirements by the Capital markets Authority thus denying potential investors information to evaluate performance. These companies need to disclose their real financial performance to the public and especially revalue their prime estate assets which are grossly undervalued having appreciated unusually over the years"

5.3 Recommendations for Regulatory Bodies

ICPAK is the body charged with the mandate of overseeing the implementation and compliance of International Financial Reporting Standards (IFRS). The researcher recommends that ICPAK should apply more vigilant compliance policies which may include penalties to companies or institutions that do not comply with IFRS in order

to ensure full compliance by all companies which are required by law to comply with IFRS. ICPAK should also set deadline dates when this ought to be achieved.

Both CMA and NSE have compliance departments which oversee compliance with the rules and regulations by listed companies and other market participants. The researcher recommends that such bodies would find these research findings useful in furtherance to their compliance obligations of all listed agricultural companies on the Nairobi Securities Exchange.

All listed companies should capacity build their employees on areas of financial and non-financial disclosures and period reviews should be carried out to ensure full compliance.

5.4 Limitations of the Study

The project objective was to establish the extent of compliance with IAS 41 by listed agricultural companies on the Nairobi Securities Exchange (NSE) in Kenya. The researcher intended to use primary data from self administered questionnaires from the listed companies. I lowever the data to be collected may have been too sensitive and could have led to the non response by the listed agricultural companies. Some of the respondents said they were too busy and hence would not wish to respond to the questionnaire, others indicated they required more time to think about it. while others were of the opinion that the topic was too difficult to deal with.

Time was a constraining factor and with the high rate of non-response the researcher used year 2010 published accounts of the listed agricultural companies which the companies had provided as a basis for this research. The research findings were hence limited to a few listed agricultural companies.

The number of listed agricultural companies on the Nairobi Securities Exchange is only seven and hence may not be representative of the industry practice.

5.5 Areas for Further Research

The limitations encountered presents an academic engagement platform with other limited agricultural companies not listed on the Nairobi Securities Exchange. Research findings of these companies would present more comprehensive findings on the extent of compliance with IAS 41 by agricultural companies in Kenya.

From the research findings, the researcher found out that companies used different methods of fair value detennination for similar biological assets and biological produce. It would be of academic interest to compare if such differences have an effect on the value of shares of the trading companies on the Nairobi Securities Exchange.

It would also be of academic interest to carry out a research on the levels of compliance on other international financial reporting standards applied in different industries in Kenya.

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APPENDIX I

Recommendation letter

UNLVEHSNY OFNAIROBI

SCMOOL OF BUSINESS

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DATE

TO WHOM IT MAY CONCERN

The br i of this letter. V-vA-Sw-s^iA

Registration No;

is M-j'.lor ot Business Admiuisti.ilion (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment leseareh .project report on a management problem We would like the! students to do their piojects on ie.il problems affecting firms-in Kfknya We would, therefore, appreciate <f you assist him/hei by allowing him/her to collect data in y6ur organisation for the research.

The results of (he report will be used solely for academic purposes and copy of the same will be availed to the Interviewed organizations on request

Thank you.

OR. W.N. IRAKI
CO ORDINATOR, MBA PROGRAM

P. o ' B ° F F l C E J
'W/flo 30,9>*

APPENDIX II

Questionnaire

Private and Confidential ***Questionnaire No:***

The information contained in this questionnaire will be treated confidentially and will not be used for any other purposes other than academic.

SECTION I: BACKGROUND INFORMATION

1. Name of Company

2. Is the company - Private Ltd [ ]? or Public Ltd [ ]?

SECTION II: EXTENT OF COMPLIANCE

Recognition

3. How do you measure your biological assets on the balance sheet?

	Tick one
On initial recognition only	
On initial recognition and at each balance sheet date	[ ]
Not sure	[ ]

4. How do you measure your biological produce?

	Tick one
At fair value	
At market value	
At fair value less estimated point of sale costs	
At cost	
At costs less estimated point of sale costs	
Not sure	

Fair Value Determination

5. How do you determine your fair values?

	Tick one
Use quoted market prices	]
Use the most recent market transaction price	]
Market prices for similar assets	]
Sector benchmarks	
Present value of the expected net cash inflows	
Not sure	]

6. Do you have incidences of gains or losses on initial recognition of biological assets?
YES [ ] NO [ ]

7. If yes is the gain or loss included in the profit and loss account in the period in which it arises? YES [ ] NO [ ]

Government Grants

8. Do you receive any Government Grants related to biological assets?
YES [ ] NO[ ]

9. If yes when are they recognized as income?

Financial Disclosures

10. Do you disclose :

the aggregate gain or loss arising during the period on initial recognition of biological assets and agricultural produce?
YES[ ] NO[ ]

the aggregate gain or loss arising during the period from changes in fair ?
YES[ ] NO[ ]

the fair value less estimated point-of-sale costs of agricultural produce harvested during the period?
YES[ ] NO[ ]

a reconciliation of changes in the carrying amounts of biological assets between the beginning and the end of the period under the fair value and cost approach?
YES[ ] NO[ ]

v. the net gain or loss recognized on the disposal of biological assets where they are measured at costs?

YES [ ] NO[ ]

Non-financial disclosures

11. Do you disclose:

i. the nature of activities involving each group of biological assets?

YES [ ] NO [**J**

ii. the physical quantities of each group of biological assets at the end of the period?

YES [ ] NO[ ]

iii. the output of agricultural produce during the period?

YES [ ] NO[ ]

iv. the method and significant assumptions applied in determining the fair value of each group of agricultural produce and each group of biological assets?

YES [ ] NO[ ]

v. The existence of biological assets whose title is restricted and/or pledged as liabilities and the amount of commitments for biological assets?

YES [ ] NO [ ]

vi. The financial risk management strategies related to agricultural activity?

YES[ ] NO[ ]

vii. Where during the period the fair value becomes the measurement basis?

YES[ ] NO[ ]

Other disclosures

12. Do you disclose the case where the entity cannot measure fair value reliably and adopts the cost method, giving a description of the biological assets, an explanation why fair value cannot be measured reliably, the depreciation method used and the useful lives and the gross carrying amount of the assets at the beginning of the period?

APPENDIX III

Listed agricultural producing companies on the Nairobi Securities Exchange analyzed during the study

1) Kapchorua Tea Company Limited
2) R.EA Vipingo Plantations Limited
3) Kakuzi Limited
4) **Sasini Limited**
5) Williamson Tea Kenya limited
6) Eaagads Limited
7) Limuru Tea Company Limited