

## CASE STUDY OF THE ACCOUNTING POLICY FORMATION AT AGRICULTURAL HOLDINGS IN LITHUANIA

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The article provides a brief overview of the normative and positive accounting in relation to profit increase/decrease. In order to meet the aim of this study – to define the peculiarities of the accounting policy formation at Lithuanian agricultural holdings- descriptive, logical analysis and synthesis, comparison, questioning, and graphical representation methods were employed. The relationship between accounting method application and profit increasing/decreasing accounting policy formation at agricultural holdings is analyzed. The study revealed that a holding with respect to accounting policy formed in relation to profit may choose different accounting methods according to different accounting objects. It follows from the empirical investigation carried out at Lithuanian Agricultural holdings that not all holdings acknowledge the role of the accounting policy and the relevance of its formation. The holdings that form the accounting policy do not look for the most favorable moment for the accounting policy formation. They refer to the normative theory. The empirical study of the tangible, inventory and biological assets, and liabilities with respect to accounting policy formation indicated that most of the Lithuanian agricultural holdings choose the profit increasing accounting policy.

**Key words:** normative theory, positive theory, accounting policy formation, profit, assets, liabilities, accounting methods.

**JEL Classification:** M41, D02, D21.

### Introduction

Business environment has substantially changed since Lithuania has joined the EU: free trade area was created, trade restrictions and limitations were repealed. In such an environment individual features, quality of inner processes and management become particularly important and accounting policy as a means to reach for the aims of the company is attached a great importance, i.e., in order to correctly reflect the results of the company's activity it is necessary to choose appropriate accounting methods and rules.

The first international accounting standard indicates that information presented in financial statements is prepared according to the company's foreseen financial accounting policy. One of the financial reporting parts – notes – has to reveal the company's accounting policy, its constituent parts.

Formation of the company's accounting policy is a complicated process, requiring for good knowledge of accounting and its regulation, so that the company's activity was reflected in the most favorable way. Besides, the most suitable technologies of accounting organization and implementation should be chosen in order the accounting policy took a practical form. Therefore, creative and purposeful cooperation of the practical workers and theorists resulted in the opinion that three parts methodical, organizational and technical constitute the accounting policy of the company.

The most important is the methodical part of the accounting policy formation, as it has to ground scientifically the structure of the accounting policy, its constituent parts. It helps to choose accounting methods reflecting the financial state of the company.

Most of the scientific research has concentrated on the establishment of the advantages / shortcomings of the normative and positive theories, elucidation of the possibilities of their implementation in the accounting policy formation. The investigations were carried out by S. Henderson, G. Peirson, and R. Brown (1993), M.C. Jensen (1976, 1983), A.M. Tinker, B.D. Merino and M.D. Neimark (1982) and others. However, the approach of the accounting theories to profit increasing / decreasing was not analyzed. R. L. Watts and J. L. Zimmerman (1986, 1990), T. Mouck (1990), P. M. Healy and J. M. Wahlen (1999), A. Riahi-Belkaoui (2000), H. Stalowy and G. Breton (2000), D.S. Dhaliwal, G. L. Salamon and E. D. Smith (1982) and others analyzed the factors and problems related to the company's choice of the accounting policy. On the basis of the positive accounting theory the factors contributing to the choice of the positive accounting policy were rather comprehensively analyzed by R.W. Holthausen and R.W. Leftwich (1983),

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R.G.A. Vergoosen (1997), W.R. Scott (2003), K. Rudzioniene and D. Zinkeviciene (2004, 2005), G. Iatridis (2006), J.J. Hooks, H. Perera (2006), and others. The peculiarities of the large, medium and small-scale companies were singled out; however, the relationship between application of the accounting methods and profit increasing/decreasing accounting policy in agricultural holdings was not explored.

The research object – formation of the accounting policy.

The research aim – to determine peculiarities of the accounting policy formation at Lithuanian agricultural holdings.

To meet the aim the following tasks are foreseen to be solved:

- 1) to overview the main trends in accounting theories contributing to accounting policy formation and define possibilities of their implementation in practice;
- 2) to derive the relationship between accounting methods and profit increasing/decreasing accounting policy formation;
- 3) to carry out empirical research of the accounting policy formation at Lithuanian agricultural holdings;
- 4) to analyze the dependence of the accounting policy at Lithuanian agricultural holdings on different holdings' priorities related to profit increasing/decreasing.

Research methods. The descriptive, comparative, logical analysis and synthesis methods were employed to analyze the theories investigating accounting policy formation and define possibilities of their application in practice, analyze the applicability of the company's accounting methods in relation to profit increasing/decreasing with respect to accounting policy formation. To carry out empirical research of the accounting policy at Lithuanian agricultural holdings, the methods of questioning, logical analysis and synthesis as well as graphic representation were employed.

#### ***Accounting Theories Contributing to Accounting Policy Formation***

The core concepts of the cognition theory – empiricism and rationalism – were the basis for the main trends in accounting theory to develop. While the supporters of the empiricism claim that all ideas rise from experience, the supporters of the rationalism postulate that our knowledge is entirely independent from experience knowledge. The development of the accounting theories was stipulated not only by different cognition theories, but also by different accounting aims. With respect to whether one needs to explain what has to be or it is sought to show what already is, i.e., what actual relationships exist between separate objects, two trends in accounting theories are distinguished: positive and normative. S. Henderson, G. Peirson and R. Brown (1993) distinguish the periods of General Prescriptive Theory (1955 - 1970) and Specific Descriptive Theory after 1970. Thus, taking into consideration the aims of the

accounting, the normative accounting theory could be called prescriptive, while positive – descriptive.

In 1970 a marked scientific advance in accounting took place: the empiricism occupied a special place and an attempt was made to more adapt the financial statements for the needs of the decision makers.

M.C. Jensen (1976, 1983) proved that positive investigations are necessary in order to solve normative issues in accounting, for instance, such as "Do accountants have to revalue the assets, in order to reflect the changes in prices?" Positive theory seeks to explain the reasons of why the companies use one or other methods, standard creators pass one or the other standards, as well as to explain different evaluation rules of the company's value and managers' wealth.

A.M. Tinker, B.D. Merino and M.D. Neirmark (1982) stress that irrespective of how these theories are called - "positive", "descriptive" or "empirical" they are frequently shown as more realistic, reflecting real facts and are more relevant than normative.

Positive accounting theory (PAT) explains and prognoses the consequences of the management's decisions. Different from the normative theory which is rests on scientific presumptions, and hypotheses that the managers have to maximize the profit or benefit of the company, the positive theory is built upon the fact that people, with no exception, behave egoistically and seek to maximize their own benefit. R.L. Watts and J.L. Zimmerman (1986) fully explained the positive theory. They argue that the hypothesis of the profit maximization is not proved and frequently is in conflict with reality. They criticize the existing normative accounting theories as they base on the valuation approach.

According to R. L. Watts and J. L. Zimmerman, the creation of the accounting theory has to be set free from the theoretical speculations and a new approach is needed. They claim that 'the purpose of the accounting theory is the explanation and prognosis of the accounting practice'.

R. L. Watts and J. L. Zimmerman (1986) claim that their final aim is to adapt positive theory in creation of the accounting standards. Based on the fact that the passed standards of the financial accounting may have influence on the future cash flows of the companies, R. L. Watts and J. L. Zimmerman analyze the factors that influence the company's decisions to support or reject the adoption of certain accounting standards. The scientists distinguish taxes, legislation, premium payments for the administration, expenses of the account keeping and political expenses as the factors encouraging the management's participation in this process. These factors are joined into the model, which reveals that large companies will support the change of the standards that reduce their profit.

E.W. Astami and G. Tower (2006) carried out a research in order to find out if there is a relationship between the specific variables and management's accounting policy choice. They evaluated the data reported in

statements of 442 listed companies in Asia Pacific region in 2000 – 2001 on:

- methods of the inventory valuation;
- methods of depreciation accounting;
- prestige treatment;
- property, plant and equipment (PPE) valuations.

A tendency of the income increasing/decreasing accounting policy choice was chosen as a dependent variable.

M. E. Zmijewski, R.L. Hagerman (1981) carried out a study in order to find out how individual accounting principles are combined when choosing a strategy of the company's income. Income strategy was a dependent variable in a probit analysis where the independent variables were: company's size, pay of the managers, concentration degree of the industry, systematic risk, ratio between capital intensity and debts, and assets. The findings indicate that there is a strong relationship between the first four of these factors and the choice of the company's income policy. This study elucidates the relevance of the accounting theory when defining and choosing accounting standards.

Neither positive nor normative accounting theories contradict accounting policy formation in relation to profit increasing/decreasing as both of these theories supplement each other: the positive seeks to explain the accounting practice, which is supposed to be beneficial, whereas the normative – the practice which should be adopted. When forming a company's accounting policy a range of factors should be taken into consideration. The most important of them is the interests of the present and potential owners, providing them with information on company's state and its changes. Appropriately chosen trend in information formation predetermines practical accounting procedures. Scientific articles (Ruland R.G., 1984; Hope O.K., 2003; McKernan J., Dunn J., 2003) stress that exhaustive information on accounting policy helps to avoid mistakes in the evaluation of the company's future perspectives and in appropriate choice of the future investments, increases objectivity of the financial information. However, most of the companies' accountants still miss consistent, scientifically and methodically grounded advice on accounting policy formation.

In this study, the choice of accounting methods when forming a company's accounting policy in relation to profit increasing/decreasing is based on the rules of both positive and normative theories. At first we analyze what method a company should choose in order to form profit increasing/decreasing accounting policy, then an empirical investigation on accounting policy formation at Lithuanian agricultural holdings will be carried out.

### ***The Choice of Accounting Methods when Forming Company's Accounting Policy***

Individual company's aims and needs frequently reflect the principles of the positive approach to accounting

policy formation. Choosing a company's accounting policy it is sought to not only precisely and correctly record the operations a company carries out, but also to form such activity outcomes which would be close to the aspirations of the company's management.

Although, the choice of accounting methods is strongly restricted by the legislation, each of the companies still has possibilities to choose one of a few alternative accounting methods: the head decides what accounting strategy will be practically used in the company – profit increasing or profit decreasing, whereas it is useful for the consumers of the accounting information, who make decisions according to the accounting data, to know what stipulated the choice of one or the other accounting method.

Positive accounting theory (PAT) exhaustively analyzes the factors of each company's rational choice of the accounting methods. The aim of the positive approach is to generate and test hypotheses on the factors that influence the choice of the accounting methods in different companies. Thus, the choice of the company's chosen inner factors, which have to be grounded with theoretically formed (PAT theory) and empirically verified hypotheses, explain why companies differently form accounting policy (Scott W. R., 2003).

A company, based on the rules of the positive theory can form accounting policy taking into consideration priorities in relation to profit increasing/decreasing. The company having chosen profit increasing/decreasing accounting policy employs different accounting methods according to separate accounting objects to form it.

### ***Accounting and valuation methods of the tangible assets***

Based on the rules of business accounting standard "Tangible assets" of Lithuanian Republic, the assets are recorded in account at acquisition / production cost. The company itself in its accounting policy defines what expenses make up the cost of the tangible assets acquisition. However, interest, operation expenses and deducted value added tax can not be included in these expenses. The company may choose where to include not refunded value added tax whether directly in operation expenses or in the cost of tangible assets. With respect to labour and time expenses, it is more beneficial for the company not to include not refunded value added tax in the cost of the tangible assets, however, big sum of value added tax from the acquired high value assets immediately allocated to expenditure, can markedly reduce the current year profit of the company or even increase the losses. Thus, the company including not refunded value added tax into the cost of tangible assets acquisition forms profit increasing accounting policy.

Based on the business accounting standards of Lithuanian Republic, the agricultural holding can choose minimum value of the assets object from which assets is

allocated to tangible assets. This value can be determined for the total tangible assets or each separate group of tangible assets. A company giving priority to profit increasing accounting policy will be interested in choosing lower value from which assets is allocated to tangible assets.

Tangible assets can be valued as acquisition / production cost or re-valued value. Estimating tangible assets, agricultural holdings can choose whether to employ acquisition/production cost or re-valued value method for the tangible assets, or different assets estimation methods for separate tangible assets groups. Reduction in assets value is reflected in financial reporting irrespective of the chosen assets valuation method. Thus, it can be concluded that a company choosing a method of re-valued value for the tangible assets estimation forms profit decreasing accounting policy.

Depending on whether tangible assets are related to production and/or rendered services or not, different exploitation expenses are allocated. Exploitation expenses of the assets related to goods production or provision of services are included into the cost of goods or services over the whole period of assets use, i.e., gradually. Meanwhile exploitation expenses of the company's tangible assets not related to goods production or provision of services are included in operation expenses. If the company owns more tangible assets related to goods production or rendered services, than assets, exploitation expenses of which are directly included into operation expenses, profit increasing accounting policy is formed.

Expenses of the tangible assets reconstruction or repairs can also be reflected in the statement in different ways. If the reconstruction and repairs of the long-term assets prolong the time of the assets useful life and improves the useful assets characteristics, the value of these works increases the cost of tangible assets acquisition and correct the period of assets useful life. If reconstruction and repairs of the tangible assets only improves the useful assets characteristics but does not prolong the time of its useful life, the value of these works increases the cost of tangible assets acquisition. If the reconstruction or repairs do not improve the useful assets characteristics, but prolong time of useful life the cost of assets acquisition should be increased with the value of these works and the time of the useful assets life should be made more correct. The more precise value of the assets should be depreciated over this newly set time of the useful life. If the reconstruction and repairs do not improve the useful assets characteristics and do not prolong time of its useful life the value of these works is recognized as expenses of the accounting period. In the company where profit reducing accounting policy is formed reconstruction and repairs works, which do not improve the useful characteristics of the assets and do not prolong the time of the useful assets life, should make relatively higher part.

An agricultural holding choosing different time of the tangible assets useful life, different assets depreciation methods and different salvage value also forms different accounting policy with respect to profit. Choosing shorter time of the useful life, the sum of the accounting period expenses is increased, at the same time the company's profit is reduced. Having chosen the more accelerated depreciation methods the negative influence is made on profit size, i.e., profit decreasing accounting policy is formed. Whereas having chosen higher salvage value of the assets the profit increasing accounting policy will be formed.

Having generalized the study of the tangible assets accounting methods and estimation choice possibilities, the relationships scheme of these methods and accounting policy formation in relation to profit was developed (Fig. 1).

It follows from figure 1 that agricultural holdings forming profit increasing/decreasing accounting policy should pay close attention at the choice of the tangible assets accounting methods, and estimations. The correct choice of these methods, and valuations can markedly predetermine the efficiency of the chosen accounting policy in relation to profit.

#### **Methods of the inventory accounting and valuation**

Inventory recorded in accounting are estimated at the cost of acquisition/production. Forming the cost of the inventory acquisition companies may choose whether the cost will be made up of only significant inventory transportation, storage, other expenses directly related to the inventory acquisition or total expenses related to inventory transportation, storage and other directly related to inventory acquisition.

If the company chooses to include into inventory acquisition/production cost only significant inventory transportation, storage and other expenses directly related to inventory acquisition, the inventory cost will be relatively lower. Consequently, having used the inventory valued in this way in production or having sold them, the cost of the produced or sold goods at relatively lower size will reduce the profit of the company. Thus, having chosen this careful method of inventory cost formation the company chooses profit increasing accounting policy. On the other hand, if the company chooses to include into inventory acquisition/producing cost total inventory transportation, storage and other expenses directly related to inventory acquisition, the company chooses profit decreasing accounting policy.

Making annual financial report the inventory estimated at the cost of acquisition/production or the net realizable value taking into consideration which of them is lower. Net realizable value – this is estimated sales price under regular business conditions having deducted estimated costs of the manufacturing end and possible sale costs.

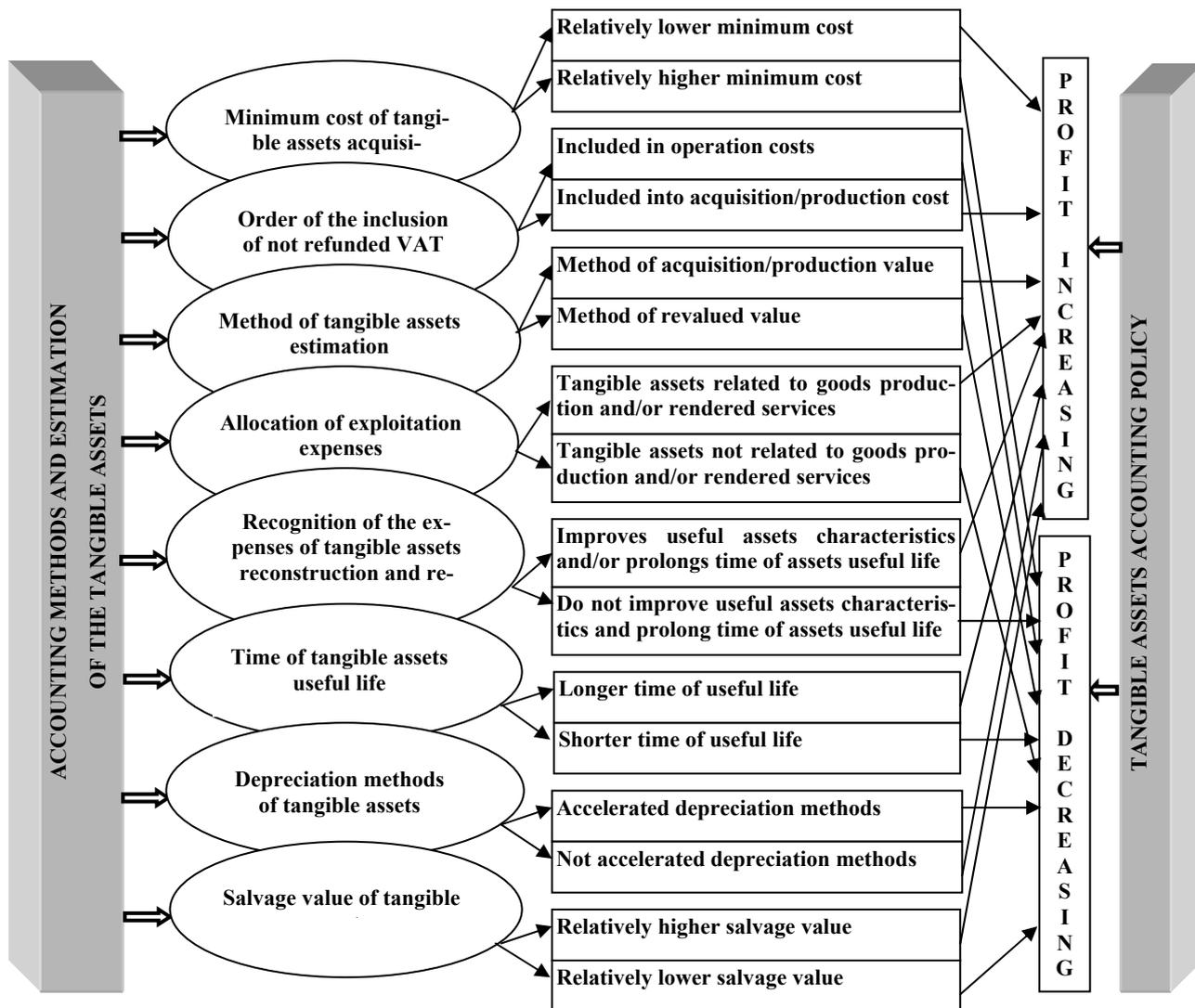


Fig. 1. Relationship between tangible assets accounting methods and accounting policy in relation to profit

By reducing the price of the inventory up to net realizable value it is sought to show the real value of the inventory. Controlling the value of the inventory over the whole time of their use the financial outcome of the inventory utilization or at the time of their sale will be lower than that when using real acquisition / production cost to value the inventory. Thus, it is possible to state, that using net realizable value to estimate inventory in annual financial report the profit decreasing accounting policy is formed.

When resources are being accounted over the whole period of their use in the company at their real cost of their acquisition/production the difference between sale revenue and the acquisition cost if compared with the outcome which is obtained applying for the inventories accounting the method of net realizable value will be relatively higher. Thus, it is possible to state, that using real cost of the acquisition/production for the estimation in the annual report, the profit increasing policy is

formed. Calculating the cost of the inventory used to manufacture the goods or cost of the sold inventory can be used FIFO, LIFO, average cost method, or specific identification or other methods of inventory valuation.

Employing FIFO method an assumption is made that inventory, which was acquired or manufactured earlier is sold or utilized first, the inventory that remained till the end of the period was acquired or manufactured later. This method is chosen forming profit increasing accounting policy.

Employing LIFO method an assumption is made that inventory acquired or manufactured later is sold or utilized first, the inventory that remained till the end of the period was acquired or manufactured earlier. This method is employed by the companies which form accounting policy in the direction of profit decreasing.

If it is not possible to determine the order of priority of the inventory utilization in the manufacturing or sale they can be estimated employing the method of average

cost. Employing this method the cost of inventory is determined according to the average cost of the inventory units at the beginning of the period and similar inventories acquired or manufactured over the whole period. Employing the method of the average price the inventory are estimated at lower than their present value. This method is close to FIFO method. Thus it is used forming profit increasing accounting policy.

When manufacturing large piece inventory, goods or rendering services for the concrete purpose their cost can be determined employing the method of the specific identification. Employing this method concrete inventory units have to be estimated at their cost and do not have to be re-valued at the end of the accounting period. Thus, profit increasing policy is formed. The generalized influence of the accounting methods on accounting policy formation is presented in figure 2.

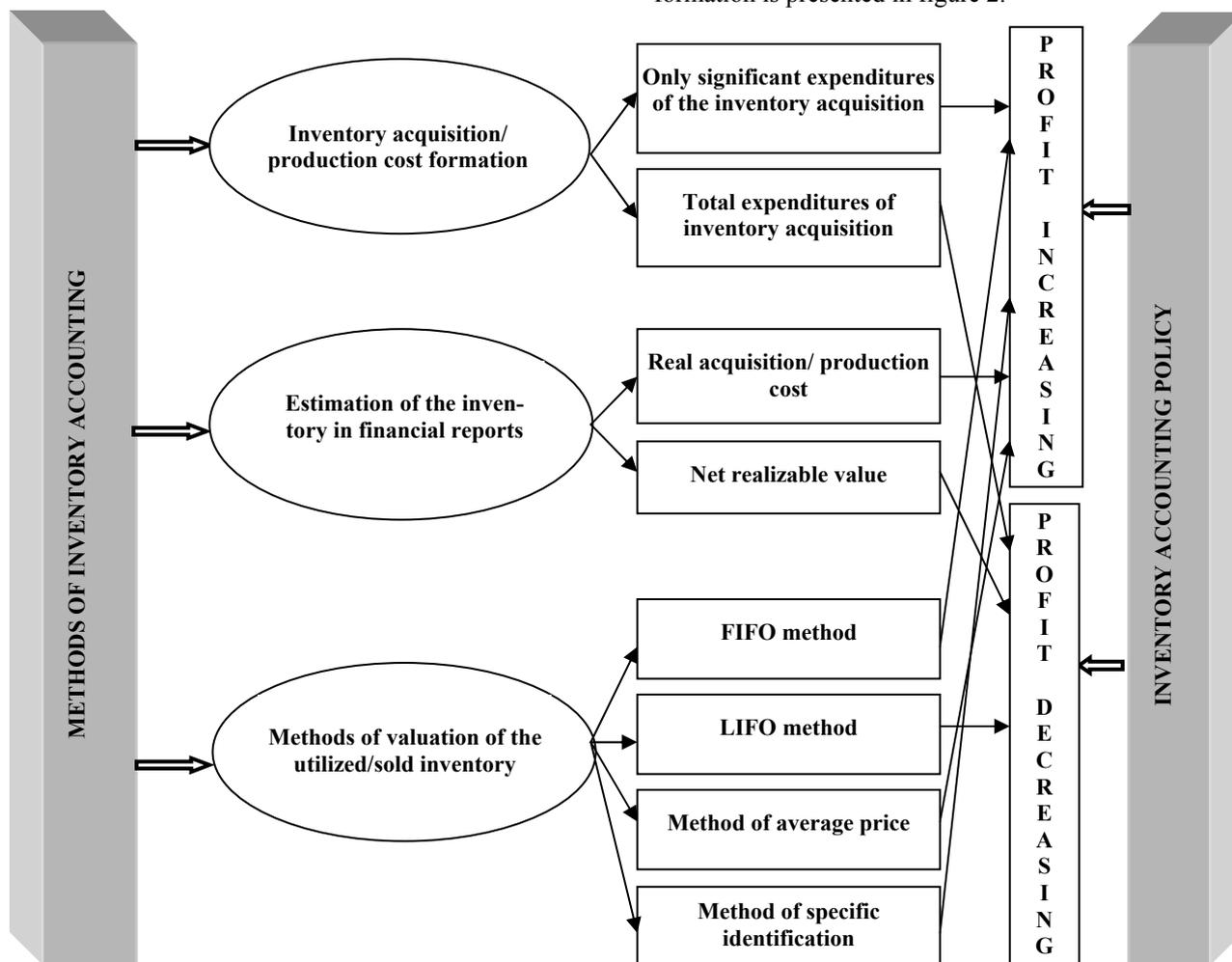


Fig. 2. Relationship between inventory accounting methods and accounting policy in relation to profit

It follows from figure 2 that choosing the methods of inventory valuation the company can form both profit increasing and profit decreasing accounting policy.

**Methods of the biological assets valuation**

In agricultural holdings, specific assets are particularly important – biological assets. Biological assets include plants and livestock. The concept of biological assets is applicable only for the plants and livestock used in agricultural activity.

Biological assets are estimated following the rules of Lithuanian Republic business accounting standard “Biological assets” which indicates that biological assets at

the time of the initial recognition (having brought the animal, crop germination, planting an orchard, etc) and each balance date is estimated employing one of the following methods:

- Fair value less estimated point of sale costs;
- Cost of acquisition / production.

The company has to choose the method of the estimation of the biological assets and indicate it in accounting policy.

The fair value is market price of the assets, having deducted the expenditures of transport and other expenditures related to the assets delivery to the market. Market price is reliably estimated by the future economic benefit.

The fair value of the biological assets at the time of its presence / growth in the company changes. The changes can be different, at the beginning the fair value of the biological assets can increase, later on it can decrease. The change in fair value of the biological assets which increases or reduces company's profit is calculated every balance date. At the moment of the sale of the biological assets the financial outcome is calculated as a difference between sale income and the last estimation of the assets at fair value. Usually, it is not high as relatively short period of time passes between the moments of sale and estimation of the biological assets. In such a way total sum from profit/losses of biological assets "distributes" among the periods of the assets presence in the company.

The biological assets grown by the company (e.g. brought along or purchased livestock) can be estimated at fair value, having deducted point-of-sale costs. Due to such estimation the value of the assets either increases or decreases if compared with real costs of its growing (acquisition/production cost). This increase or decrease or in other words the difference between the fair value of the grown assets, having deducted the point-of-sale costs, and acquisition/production cost increases or reduces the financial result of the accounting period – profit or losses. The fair value of the acquired biological assets can be equated to its value at purchasing prices. In such a case if there is no additional acquisition expenditure financial outcome (profit or losses) is not formed.

At the end of the next accounting period biological assets are again estimated at fair value, having deducted point-of-sale costs and the profit or losses which formed due to change in valuation are calculated.

Direct and indirect production costs make up the cost of the biological assets manufacturing. Having sold the biological assets, the financial outcome – profit or losses – is calculated as the difference between biological assets sale income and the cost of the assets acquisition/production. However, contrary to the case of the valuation of the biological assets at fair value, this outcome is formed only having sold the assets.

Thus employing a method of the fair value to value the biological assets, the financial outcome – profit or losses – is formed over the whole period of the assets presence at the company. Meanwhile, when the biological assets are valued at the real acquisition production cost, the financial outcome is not calculated over the whole period of their presence at the company, and becomes known only when the assets are sold. Therefore, it can be stated that having chosen for the valuation of the biological assets the method of the fair value having deducted the point-of-sale costs, profit decreasing policy is followed, whereas chosen the method of real acquisition/production cost – the profit increasing policy is followed.

### ***Methods of liabilities estimation***

Business standards of Lithuanian Republic allow the companies when forming financial reports, choose one of the liabilities estimation methods:

- Acquisition cost – sum payable of the money or money equivalents, which is foreseen to be paid under regular business conditions.
- Fair value – sum for which assets or services may be exchanged or treated as mutual liabilities.
- Current costs value – the liabilities are estimated at not discounted sum of their realization, which could be needed to cover the liabilities under current business conditions.
- Realizable value – the liabilities are registered at not discounted of their realization, which could be needed to cover the liabilities under regular business conditions.
- Current value – the liabilities are estimated at discounted sum of the future money income, which would be needed to realize the liabilities under regular business conditions.

If the companies have chosen the method of acquisition cost to estimate the liabilities, the liabilities do not have influence on the financial outcome of the accounting period, except for the cases when provisions for the liabilities are calculated. Calculating the provisions the expenses increase, i.e., the profit decreasing policy is carried out. Thus, depending on whether the provisions are calculated or not, different financial outcome will be obtained, i.e., when provisions are calculated profit decreasing policy will be formed, when not calculated – profit increasing accounting policy.

If the method of fair value is employed to estimate liabilities, at the end of the accounting period the profit or losses which formed due to change in estimation will be calculated. Thus employing the method of fair value to value the liabilities, the financial outcome - profit or losses are formed all the time until the liabilities are realized.

### ***Methods of subsidy and grant accounting***

The grants received by the companies are divided into grants related to income, and grants related to assets. Grants related to tangible assets are recognized as used in parts, i.e., balance position "Grants, subsidies" is reduced as much as assets are depreciated and corresponding expenses article is reduced. Grants related to current assets are frequently used over one accounting period and are recognized as income or the expenses are reduced at their sum.

Grants related to income are categorized into grants for not received income and grants allotted to compensate the incurred expenses. They are recognized as used over the same periods as corresponding experienced expenses or not received income, i.e. having received the grant, al-

lotted to compensate the expenses or not received income of the accounting or last period the income is immediately recorded and expenses are being reduced.

Depending on what grants the company receives – grants related to tangible assets or grants related to cur-

rent assets - differs the order of registration of the grants use in the accounting. However, increasing the income or reducing compensated expenses, the financial outcome increases, thus profit increasing accounting policy is formed (Fig. 3).

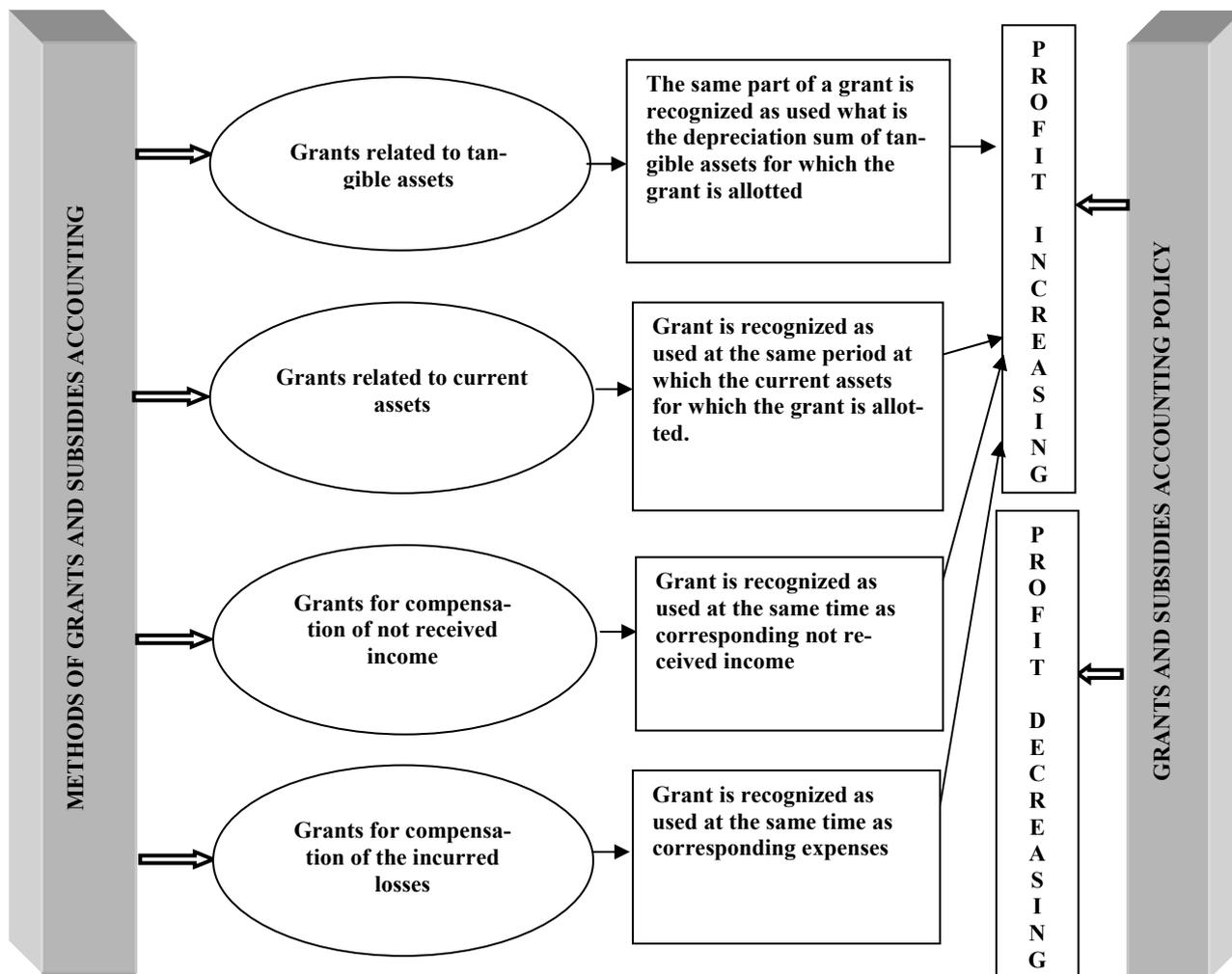


Fig. 3. Relationship between grants and subsidies accounting methods and accounting policy in relation to profit

***Peculiarities of Accounting Policy Formation at Lithuanian Agricultural Holdings***

The study aimed at investigating peculiarities of the accounting policy formation at agricultural holdings. In order to ensure higher anonymity of the respondents and data reliability, the method of questioning was chosen.

82 accountants from Lithuanian agricultural holdings were questioned. 85.4% of the chosen companies were agricultural companies holdings, 9.8% joint stock companies and 4.8% other companies.

As any research object has sense when its essence is perceived, the respondent opinion on the conception and necessity of the accounting policy was analyzed. Most of the accountants (76.8%) from agricultural holdings acknowledge the accounting policy as principles of the ac-

counting, methods and rules of the company’s accounts keeping and formation of financial reports, 15.2% of the respondents name the accounting policy as a set of normative acts. This indicates that accounting policy is formed without taking into consideration the needs of the company or it is not formed at all, the accounts are kept following corresponding regulations.

65.8% of the respondents answered that it is expedient to form accounting policy in the company. However, only 26.8% of the questioned companies had a prepared accounting policy. 60% of the questioned companies plan to prepare the accounting policy in the nearest future, whereas 13.2% of the respondents do not plan to prepare accounting policy. The standards of the business accounting adopted in the Republic of Lithuania strongly influenced the companies’ decision to prepare accounting pol-

icy (54.5%). 27.3% of respondents indicated that their decision to prepare company' accounting policy came from the desire to define the overall order of accounting.

Generalizing it can be stated that 27% of the respondents perceive the essence of the accounting policy and importance of its formation for the company correctly.

The next important step of the study was to find out the key problems the companies face when preparing or planning to prepare the accounting policy. Most of the companies 43.3% recognize that the main problem when preparing accounting policy is the fear of innovations and lack of knowledge. One third of the respondents also in-

dicate that it is not clear on what basis possible accounting methods can be chosen. When analyzing the lack of information in order to prepare the accounting policy properly almost half of the respondents indicated that they would like to have typical example of the accounting policy (of the non-existent company) and 36.8% would like to have methodical recommendations of how to prepare accounting policy.

Having carried out the questioning of the accountants of the agricultural holdings on tangible assets accounting policy formation the following results were obtained (Fig. 4).

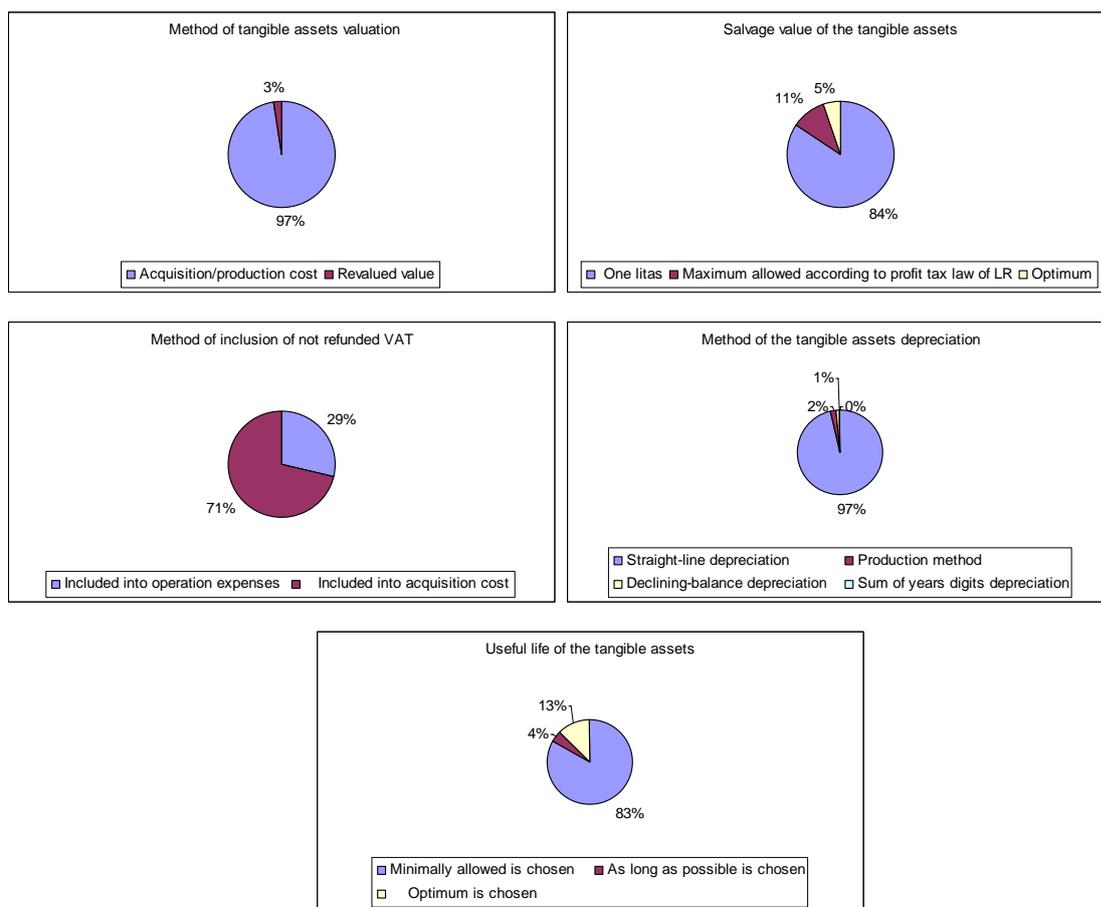


Fig. 4. The choice of the tangible assets valuation and accounting methods at Lithuanian agricultural holdings

As it follows from figure 4 tangible assets in most of Lithuanian agricultural holdings are valued at the cost of acquisition/production. The companies usually choose the minimum period of the useful life of the tangible assets and its salvage value established in n Profit Tax Law of Lithuanian Republic. As different depreciation method can be chosen for the separate tangible assets groups some agricultural holdings in addition to legal method use method of production and declining-balance depreciation method. No company uses sum of years digits depreciation method. The companies that can not recover surplus value added tax frequently include it into the cost

of the tangible assets acquisition/production. To sum up it could be stated that in most cases Lithuanian agricultural holdings choosing the methods of the tangible assets valuation and accounting form profit increasing accounting policy.

The agricultural holding needs biological assets to carry out its activity. The investigation indicated that 93.7% of the respondents over the period of its initial recognition estimate the biological assets at the acquisition/production cost, the remainder choose the method of fair value, having deducted the point of sale costs. Having analyzed the factors that influenced the choice of the real

cost method it was found that most companies (56.1% of the respondents) chose the method of the real estimation of the biological assets because it was used in the company earlier it is rather clear and understandable. The companies that chose for the estimation of the biological assets the method of real value having deducted the point-of-sale costs the more simple method of the valuation as there is no need calculate real cost and perform complicated procedures of the revaluation from planned to real

cost. One fourth of the agricultural holdings participating in the survey did not understand how the real value of the biological assets is determined.

Analyzing the formation of inventory accounting policy at agricultural holdings we were interested what expenses related to inventory acquisition were included into the cost of inventory acquisition and what method of valuation of the utilized/sold inventory the companies choose (Fig. 5).



Fig. 5. The choice of the methods of inventory valuation and accounting at Lithuanian agricultural holdings

As we can see from the results presented in figure 5, 53 % of the respondents include into the cost of inventory acquisition only significant expenses. 87.8% of the respondents employ for the valuation of the utilized/sold inventory FIFO method. It indicates that Lithuanian agricultural holdings choosing the methods of inventory estimation and accounting form profit increasing accounting policy.

Companies making up financial reporting have to choose the method of liabilities estimation. As the decision of the company to calculate provisions or not have influence on the financial outcome the respondents were asked in order to find what method of liabilities estimation chose the companies and if the companies perform the provisions (Fig. 6).

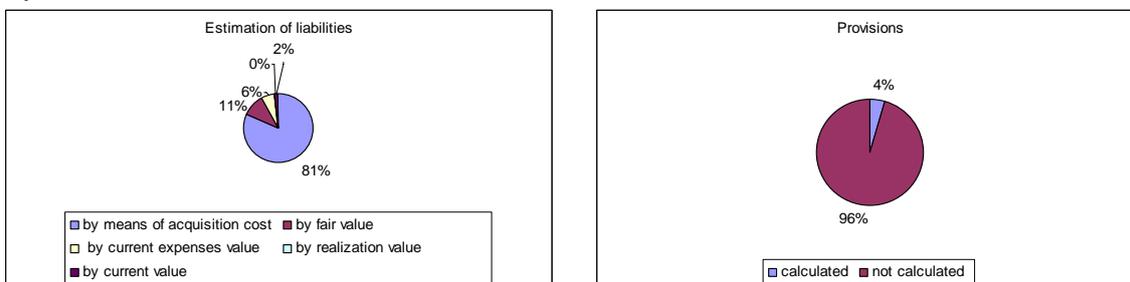


Fig. 6. The choice of the liabilities estimation methods and calculation of provisions at Lithuanian agricultural holdings

As we can see from the results in Figure 6, most of the respondents evaluate the liabilities in financial reporting by the method of acquisition cost whereas no company has chosen for the liabilities evaluation the method of realization value. Most of the companies' respondents do not calculate provisions. To sum up it can be stated that with respect to the formed liabilities accounting policy, a positive influence is made on the financial result.

**Conclusions**

1. Taking into account the accounting aims set in relation to profit increasing/reducing the formed positive and normative accounting theories with respect to accounting policy formation cannot be analyzed separately,

as both of them supplement each other: the normative theory defines what accounting method the company has to choose to form profit increasing /decreasing policy, whereas positive theory explains the choice of the accounting policy in the companies.

2. With respect to the formed accounting policy in relation to profit the company chooses different accounting methods and techniques according to different accounting objects.

- Forming profit increasing tangible assets accounting policy the company should choose relatively lower minimum cost of the tangible assets acquisition, for the valuation of the tangible assets should be chosen the methods of acquisition/production cost, relatively longer

useful life of the tangible assets, not accelerated methods of assets depreciation, relatively higher salvage value.

- Forming profit increasing inventory accounting policy the company should choose for the valuation of the utilized/sold inventory FIFO method and include into the acquisition cost only significant expenses related to inventory acquisition.

- Forming profit increasing biological assets and liabilities accounting policy the company has to value the biological assets and liabilities at real cost.

3. Having carried out the empirical investigation of the accounting policy in relation to profit at Lithuanian agricultural holdings it was found that not all companies acknowledge the role of the accounting policy and the importance of its formation. Companies that form accounting policy do not look for the most favorable moment for the accounting policy formation. They refer to the normative theory. More than a half of the respondents indicated as a main factor contributing to the accounting policy preparation the passed business accounting standards but not the desire to define the order of accounting in the company.

4. Having performed the empirical investigation of the tangible assets, biological assets and liabilities accounting policy formation in relation to profit it was found that most of Lithuanian agricultural holdings choose profit increasing accounting policy.

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