

## **Abstract**

Biological assets should be valued at fair value less point of sale costs only if an active market exists. The quoted price in an active market is the appropriate basis for determining the fair value of the asset. The objective of this research was to identify the challenges in respect of fair value reporting on the part of small- and medium-sized entities that publish general purpose financial statements, but that do not have public accountability in implementing the requirements of the International Financial Reporting Standard for Small and Medium-sized Entities. Through the research it was established that in Kenya the commodity markets operate in a simplified auction system with no clear price discovery mechanism. The lack of an active and transparent market is a serious challenge in terms of the application of fair value to biological assets. Consequently, most of the farmers prefer to model the market information available. In the light of the diverse nature of agricultural produce, this article recommends virtual trading and development of commodity futures in order to reduce the market access cost, to improve accessibility to market information and to transform the role of middle traders to that of market linkages.