DOES THE ACCOUNTING INFORMATION INFLUENCE THE FARM PROSPERITY?

POT INFORMAȚIILE CONTABILE SĂ INFLUENȚEZE PROSPERITATEA EXPLOATAȚIILOR AGRICOLE?

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***Abstract**: Farms make little use of accounting and until now have been largely excluded from the scope of accounting standards. The use of accounting-based information can significantly improve the explanation and prediction of farm viability/failure. Any firm or entity whatever will require accounting information. Particularly in agriculture, it is generally assumed that the introduction of accounting will improve farm management and produce better farm performance.*

***Rezumat**: Exploataţiile agricole au utilizat prea puţin contabilitatea şi până nu demult au ocolit cu success standardele internaţionale de contabilite. Folosirea informaţiilor contabile pot îmbunătăţii în mod significant explicarea şi previziunea viabilităţii fermelor sau a insuccesului acestora. Cu totul special în agricultură,a fost observat faptul că introducerea contabilităţii a dus la îmbunătăţirea managementului şi a obţinerii unor performanţe mai bune.*

***Key words*:** *accounting, agriculture, farm prosperity*
Cuvinte cheie: *contabilitate, agricultură, prosperitate*

INTODUCTION

The limited use of accounting in agriculture may lead that it is not a very important and useful peace for decision-making process. Our opinion is that accounting makes a significant contribution to explaining and predicting farm viability. We believe that this evidence reveals both the need for increased use of accounting in agriculture and for the development of accounting standards for agriculture.

Even though the capacity to predict viable and unviable farms may not be relevant for farm management, it is important for other agents involved in agriculture. For example, banks evaluating farm loan repayment or policymakers planning policies or grants to make farms viable. Moreover, inefficient farm behavior under risk of failure could be avoided when farms would be helped towards viability.

Two kinds of variables are usually employed in predicting farm failure: financial ratios and any other variables taken from accounting information and variables relating to characteristics of specific farm and farmers that do not meet an accounting criteria, but are easily observed and usually reflect structural and fixed characteristics of each particular farm. We also distinguish two kinds of variables.

On the one hand, accounting variables are usually difficult to obtain from farms because they require accounting procedures. The use of accounting in agriculture is generally limited. On the other hand, structural variables can be obtained more easily because accounting procedures are not needed.

The first criteria used for selecting variables was their theoretical importance and the existence of a prior consistent economic relationship with the dependent variable. The variables most commonly used in studies applied to agriculture and found that each of the following occurred more than four times: debt-to-asset ratio, dichotomous variables relating to the region in which the farm was located and its production, the number of people forming the household, the age of the farmer, and the ratio of current assets to current liabilities.

THE GREATER THE SIZE OF THE FARM, THE SMALLER THE PROBABILITY OF FAILURE

Big farms usually perform better than. However, empirical evidence is not unanimous. It is generally expected that the younger the farmer the greater the probability of failure.

There are few works on the use of accounting in agriculture. Moreover, to the best of author's knowledge no empirical study has previously tested either the relationship between keeping accounting records and farm results, or the contribution accounting can make to predict farm viability.The share of total labour input coming from family labour, utilized agricultural area, return on assets and turnover of assets except land provide a significant model to explain and predict farm failure.

There are some reasons to explain the use low of accounting by farms. However, we concluded that accounting-based information is an important tool for assessing farm viability. Policymakers and agents involved in agriculture will get greater efficiency and effectiveness in their decisions when they base them in accounting-based information of the farms. For example, banks evaluating farm loan repayment or policymakers planning policies or grants to make farms viable.

Authorities and institutions should therefore promote the use of accounting in agriculture, helping to solve technical and cost inconveniences for farmers. Even so, appropriate accounting standards are a necessary precondition for any such developments. Together with other reasons, like the generally lower level of managerial sophistication and fewer economic means in the sector, the limited appropriateness of general accounting principles has led to a situation in which farmers are more reluctant to prepare accounting reports and use this kind of information than the agents in other economic sectors.

Moreover, because of their size or legal form, most European farms have no legal obligation to publish financial statements, and when farmers use accounts, they typically only do so to comply with tax and subsidy requirements.

On the other hand, it is generally believed that accounting can improve farm management and lead to better farm performance. Same empirical work found that farmers who used a formal record system over time improved their ability to use the kind of information the system produced. For example, it was observed that farmers who prepared financial statements were more likely to make cash flow projections than those who were not involved in financial accounting.

THE USE OF ELECTRONIC SYSTEMS HELP

The farmers who were using electronic information systems observed by themselves that accounting functions would improve their management information systems.

Thus, accounting is a necessary precondition to generate useful information for decision making, and it is also a good complement for management information systems. In the same time, accounting data makes a significant contribution to explaining and predicting farm failure.

We can conclude therefore that there exists an external demand for accounting information in agriculture and that this information would also be useful for the farmers themselves. Farmers do not get involved in accounting, however, because current accounting rules do not adapt very well to their type of business and are difficult and expensive to implement.

It was observed that agriculture is indeed increasingly interrelated with other sectors of the economy and that this interrelationship leads to the perception of an increased need for accounting data. We observed a divergence of accounting practices employed by the farms, mainly concerning revenue recognition, expenses and treatment of subsidies (some using accruals, others the cash basis). We also observed different approaches to fixed asset valuation and depreciation, although all farms coincided in valuing livestock at end-of-period market prices, simplicity being the most important reason to opt for this valuation method. The calculation of historic costs for livestock was considered by them as very difficult and problematic.

THE ROLE OF FARM ACCOUNTANCY DATA NETWORK

European Union's Farm Accountancy Data Network (FADN) and the Proposed International Accounting Standard on Agriculture (PIASA) provided accounting data. Particularly, the valuation of assets, the recognition and valuation of revenues and expenses, and their presentation in the financial statements are reviewed. In this, we try to identify, on the one hand, aspects of FADN which should be modified to get in line with the PIASA, and on the other hand, contributions FADN could make to the International Accounting Standards Committee's (IASC) effort.

In most cases FADN uses market prices for the valuation of non-monetary assets. Specifically, livestock is valued at prices prevailing at the beginning and ending of the accounting period. The valuation of land is based on the market price for non-rented land with similar characteristics regarding location, quality and use, from which any development costs are deducted. Depreciable fixed assets, such as buildings and machinery, are valued at replacement cost at the beginning and end of the accounting period. Replacement cost is defined here as the price that the farm would pay for a new similar asset. Accordingly, depreciation is calculated on a replacement-cost basis. To the extent that replacement prices are not available or not reliable, FADN updates acquisition cost with specific price indices.

As far as revenue recognition is concerned, FADN takes an unusual approach, since revenues (called "output") are accounted for based on production. Another concern is the fact that FADN considers subsidies fully earned once these have been granted. Equally notable is the fact that revenues (and expenses) not related to the farm activity are not recorded at all.

Under FADN, revenues derived from livestock and agricultural produce are computed as sales plus (minus) the increase (decrease) in value of inventories. Both sold and unsold production is therefore counted as revenue. This is clearly contradictory with traditional GAAP, that normally only recognize revenues when a sales transaction has taken place, but the PIASA makes a similar proposal.

The experience of the farms we interviewed, the PIASA and the practice of FADN support that revenue recognition based on production is useful for farm accounting. However, valuing ending inventories of agricultural produce at market prices at the point of harvest, introduces in our opinion a complexity that will be difficult to apply in practice.

FADN's choice for market prices at closing date seems a much more practical solution. Furthermore, the price at the point of harvest could be confusing for policy makers and other users of accounting information. It provides windfall valuations of agricultural production, which may be rather different from the existing prices at the date of ending inventory.

Given that in the European context subsidies often are an important source of income for farms, fully recognizing subsidies as earned in the year that these are granted can lead to important
FADN distinguishes four broad categories of expenses. These are called specific costs, overheads, depreciation, and external factors. Depending on the type of farm, the specific cost refer to seeds and plants, fertilizers, crop protection, and other crop specific costs, or feed and other livestock specific costs. Overheads include machinery and building costs, energy, contract work, and other direct inputs. The external factors include wages, rent, and interest. It is not consider the remuneration paid to the farmer and his family to be an expense of the farm. The same is true for all social charges whose beneficiaries are family members. Given that the farmer's family in many cases is the major or even only constituent of the workforce, this is of considerable importance.
Both the specific costs and the overheads are determined on an accrual basis, but the external factors are valued on a cash basis. Depreciation is calculated in accordance with the valuation of the corresponding assets, that is normally on replacement value. Consumption by the farm itself of livestock and farm output in general is valued at net realizable value.

CONCLUSIONS

Farm accounting has not received much attention from accounting researchers, practitioners or standard setters, and in spite of its potential usefulness for farmers and external stakeholders financial statements are generally not very satisfactory or not even prepared at all. The arrival of an IAS on agriculture offers the opportunity to change this situation, but in our opinion its contribution is mainly on a conceptual level and requires additional tools for implementation in practice, like some form of an accounting plan.

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