Financial-Accounting Decisions of Organisations Working Agricultural Lands on Lease

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Abstract. The article presents the main aspects regarding lease, the leasing process and the lease contract. Furthermore, it approaches the main issues related to the accounting of the leasing operations. Financing decisions on short and long term and the performance of organizations working agricultural lands on lease are also approached from a financial standpoint.

Keywords: lease, leasing, contract, financial decisions, financing, performance, financial return

INTRODUCTION

Starting with the 1990s, after individuals were put into possession of lands, a phenomenon occurred, namely these individuals had no technical base to work the land, especially given that most former Agromec companies had been closed. Leasing is a solution used by new owners to capitalize on the received land.

Leasing is defined as “a contract signed between owner, usufructuary or another owner of agricultural goods and tenant regarding the exploitation of agricultural goods for a determined period of time, at a price agreed upon by the parties” (Bistrițeanu, 2001).

MATERIALS AND METHODS

Law no.16 on Land lease was issued in 1994. It mainly stipulated the following:
- goods that may be rented;
- the definition of lease;
- how the lease is signed: written contract;
- who are the leaseholders: individuals, Romanian citizens or foreign citizens;
- training the individuals who may be tenants: agricultural training;
- the structure of the lease contract, which will include: contracting-parties and their residence or headquarter; the object of the contract; the obligations of each party; duration of lease; rent, terms and payment deadlines; the liability of each party; other terms established by the parties and permitted by law.

At article 5, paragraph 2, the law also stipulates the insurance clauses of the agricultural goods, which will be the responsibility of the tenant.

The duration of the lease is established by the parties in the lease contract (article 7).

The obligations of the tenant are stipulated by article 8, paragraph 2: “The tenant shall be required to use the leased goods as a good owner, observing the terms stipulated in the contract”. According to the law, taxes and fees payable for rented goods are charged to the tenant (article 10).
Lease is defined as “a source of money or products given by the tenant to the owner for leasing agricultural goods”. The lease payment is done according to the provisions of the contract.

Article 14 of the Lease law lays down the elements of the lease for each use category of the land, which may be: the area, the production potential, the plotting structure, the topography and the accessibility level of mechanization, access possibilities, distance from the depositing areas, industrialization or commercialisation, state of the buildings, land improvements or other endowments, as well as other specific elements for lands cultivated with grape vines, trees, etc. and elements specific for livestock.

Paragraph 1 of article 25 stipulates the sanctions for violating the provisions of article 20, changing the destination without the agreement of the owner.

RESULTS AND DISCUSSION

The main specific operations regarding the financial accounting of lease will be presented next:
- monthly entry, at the estimated value of the production, of the lease
  612 “Royalties and rental expenses” = 462 “Sundry creditors”
- the entry of the agricultural works based on the acceptance certificate: ploughing, seeding, herbicides, fertilizer treatment, harvesting:
  - fuel consumption:
    6022 „Consumables expenses” = 3022 „Consumables”.
  - seeds and sampling consumption:
    6025 „Consumables expenses” = 3025 „Consumables”.
  - fertilizers consumption:
    6028 „Consumables expenses” = 3028 „Consumables”.
  - insecticides consumption
    6028 „Consumables expenses” = 3028 „Consumables”.
- The other operations regarding salaries, depreciations, etc, are done as usual, in accordance with the rules of financial accounting.
  - simultaneously are recorded:
    331 “Work in progress” = 711 “Revenues associated with the costs of completed production”
    - the entry of the crop:
      345 “Finished goods” = 711 “Revenues associated with the costs of completed production”
    - the entry of the price differences
      348 “Price differences on goods” = 711 “Revenues associated with the costs of completed production”
    - lease payment at sale price:
      4111 “Customers” = %
      701 “Sales of finished goods”
      4427 “Output VAT”
- VAT is expressly stipulated in the Tax Code.
- discharge of administration at actual costs
  711 “Revenues associated with the costs of completed production” = %
  345 “Finished goods”
  348 “Price differences on goods”
- the entry of lease differences towards the owners

612 “Royalties and rental expenses” = 462 “Sundry creditors”

- compensating the debt regarding lease with the claim resulted from delivering agricultural products

462 “Sundry creditors” = 4111 “Customers”

The operations regarding the recording of the due rent if the owner is a legal person, the recording of the produce delivery for paying rent based on invoice, the output of the delivered products and compensating debts regarding lease with the claim resulted from delivering produce are shown by the Order of the Ministry of Finance no. 1784/23/2002.

In terms of financing, a parallel can be drawn between leasing and renting. Thus, “leasing represents a type of credit where money is replaced with organic assets, namely lands, and the interest is replaced with the lease, which may be in cash, but also in products” (Deaconu, 2009).

In order to establish the main financing decisions and the performance at the level of the organizations that work agricultural lands on lease, we conducted a research at Agromec Sebes, a company that leased approximately 1000 ha of crops: rape (145 ha), autumn barley (62 ha), autumn wheat (424 ha), sun flowers (177 ha), soybeans (24 ha), corn (161 ha) and potatoes (7 ha). After working on the short version balance sheet, the main assets and liabilities for 2008 and 2009 are as follows:

<table>
<thead>
<tr>
<th>Tab. 1</th>
<th>Assets and liabilities for 2008 and 2009 - lei -</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
</tr>
<tr>
<td></td>
<td>YEARS</td>
</tr>
<tr>
<td>A</td>
<td>Total fixed assets</td>
</tr>
<tr>
<td>B</td>
<td>Total current assets, of which:</td>
</tr>
<tr>
<td>- inventory</td>
<td>1.183.894</td>
</tr>
<tr>
<td>- claims</td>
<td>457.148</td>
</tr>
<tr>
<td>- petty cash and bank accounts</td>
<td>504.702</td>
</tr>
<tr>
<td>C</td>
<td>Expenditure in advance</td>
</tr>
<tr>
<td>D</td>
<td>Net current assets</td>
</tr>
<tr>
<td>E</td>
<td>Total assets minus current debts</td>
</tr>
<tr>
<td>TOTAL assets</td>
<td></td>
</tr>
<tr>
<td>A + B + C</td>
<td>2.349.412</td>
</tr>
</tbody>
</table>

It will be determined the working capital as main financing source of the capital according to the following formulas:

a) taken directly from the balance sheet (net current assets): 806.539 in the year 2008 and 932.892 in 2009;

b) as a difference between permanent capitals and total fixed assets:

\[ \text{NWC} = C_{\text{permanent}} - A_f \]

C permanent = permanent capital

NWC = net working capital

A_f = fixed assets

\[ \text{NWC}_{2008} = 1.010.207 + 0 - 203.668 = 806.539 \]

\[ \text{NWC}_{2009} = 1.078.552 + 0 - 145.660 = 932.892 \]

c) as a difference between total current assets minus current debts

\[ \text{NWC} = A_c - Dst, \text{ where:} \]

A_c = current assets, and Dst = short term debts
\[ \text{NWC}_{2008} = 2.145.744 - (1.045.657 + 293.548) = 806.539 \]
\[ \text{NWC}_{2009} = 2.183.461 - (982.249 + 268.320) = 932.892 \]

Other forms of working capital are:
- GWC (gross working capital) = \( Ac \), therefore \( \text{GWC}_{2008} = 2.145.744 \) and \( \text{GWC}_{2009} = 2.183.461 \)
- OWC (own working capital) = \( C \) permanent – \( A_f \) or \( \text{OWC} = \text{NWC} - (\text{Long-term debts} + \text{Medium-term debts}) \)

According to the first formula, the values of the working capital are:
\[ \text{OWC}_{2008} = 1.010.207 - 203.668 = 806.539 \quad \text{and} \quad \text{OWC}_{2009} = 1.078.552 - 145.660 = 932.892 \]

And the second calculus method: \( \text{OWC}_{2008} = 806.539 \) and \( \text{OWC}_{2009} = 932.892 \)

because the values of long-term debts are 0.
- FWC (foreign working capital) = Permanent capital– Equity capital, with the values:
\[ \text{FWC}_{2008} = 0 \quad \text{and} \quad \text{FWC}_{2009} = 0 \quad \text{or} \quad \text{the formula} \quad \text{FWC} = \text{NWC} - \text{OWC} \quad \text{the values are 0 in 2008 and in 2009} \]

According to the evolution of the indicators at companies with normal activity, the normal levels of the working capital have been established at:
- the coverage rate of the inventory \( \frac{\text{NWC}}{\text{Inventory}} = \frac{2}{3} \)
- the coverage rate of the current assets \( \frac{\text{NWC}}{\text{Ac}} = 20\% - 30\% \)
- the duration of the turnover in months: \( \frac{\text{NWC}}{\text{TO}} \times T = 1 \) for 3 months of the turnover

The following levels are recorded at the mentioned company:
\[ \frac{\text{NWC}_{2008}}{\text{Inventory} \ 2008} = \frac{806.539}{1.183.894} = 0.681 \phi 0.667 \text{ normal values} \]
\[ \frac{\text{NWC}_{2009}}{\text{Inventory} \ 2009} = \frac{932.892}{1.360.595} = 0.686 \phi 0.667 \text{ normal values} \]
\[ \frac{\text{NWC}_{2008}}{\text{Ac}_{2008}} = \frac{806.539}{2.145.744} = 0.38 \phi 20\% - 30\% \text{ normal values} \]
\[ \frac{\text{NWC}_{2009}}{\text{Ac}_{2009}} = \frac{932.892}{2.183.461} = 0.43 \phi 20\% - 30\% \text{ normal values} \]
\[ \frac{\text{NWC}_{2008} \times 360}{\text{TO}_{2008}} = \frac{806.539 \times 360}{3.408.194} = 85 \text{ days : } 30 = 2.83 \text{ months} \]
\[ \frac{\text{NWC}_{2009} \times 360}{\text{TO}_{2009}} = \frac{932.892 \times 360}{5.200.232} = 64 \text{ days : } 30 = 2.13 \text{ months} \]

The indicators above have normal values or are close to normal values (the coverage rate of the inventory).
Regarding long-term financing, it is expressed through the self-financing capacity (SFC), which is determined through the deductive or additional method. By using the additional method of calculus, \( SFC = \text{net result of the year (net profit)} + \text{Depreciation and provisions (exploitation, financing, special)} - \text{Interests of subventions, for investments made for the result of the year} - \text{Depreciations and provisions} - \text{Incomes from the assignment of assets} + \text{The net accounting value of the assigned assets} \).

The level of the self-financing capacity of the analysed company is:

- \( SFC_{2008} = 66.390 + 69.450 = 135.840 \)
- \( SFC_{2009} = 61.301 + 64.862 = 126.103 \)

For gearing, banks require to comply with certain limits. For long and medium-term, the condition is that the debt doesn’t exceed a certain multiple of the self-financing capacity. Therefore, \( \frac{\text{Time.debts}}{SFC} \leq 4 \).

In case the company is not confronting with financing debts exceeding one year, it may use these resources to finance investments.

To calculate the company’s performance, the structure of the profit and loss account (processed) for 2008 and 2009 will be presented in table 2:

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2008 (lei)</th>
<th>2009 (lei)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net turnover, of which:</td>
<td>3408.194</td>
<td>5200.232</td>
<td>152.58</td>
</tr>
<tr>
<td>- sold production</td>
<td>1528.342</td>
<td>1070.555</td>
<td>70.05</td>
</tr>
<tr>
<td>- production from sold goods</td>
<td>1451.474</td>
<td>3376.000</td>
<td>232.59</td>
</tr>
<tr>
<td>- incomes from operating subventions</td>
<td>428.378</td>
<td>753.677</td>
<td>175.94</td>
</tr>
<tr>
<td>Operating incomes</td>
<td>4029.734</td>
<td>5528.723</td>
<td>137.20</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>3999.025</td>
<td>5755.717</td>
<td>143.92</td>
</tr>
<tr>
<td>- expenditure with goods</td>
<td>1304.369</td>
<td>3016.361</td>
<td>231.02</td>
</tr>
<tr>
<td>Operating profit</td>
<td>30.709</td>
<td>-226.994</td>
<td>-</td>
</tr>
<tr>
<td>Financial incomes</td>
<td>84.252</td>
<td>398.160</td>
<td>472.58</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>35.925</td>
<td>98.368</td>
<td>273.81</td>
</tr>
<tr>
<td>Financial profit or loss</td>
<td>48.327</td>
<td>299.792</td>
<td>620.34</td>
</tr>
<tr>
<td>Current profit or loss</td>
<td>79.036</td>
<td>72.798</td>
<td>92.11</td>
</tr>
<tr>
<td>Total incomes</td>
<td>4113.986</td>
<td>5926.883</td>
<td>144.07</td>
</tr>
<tr>
<td>Total expenses</td>
<td>4034.950</td>
<td>5854.085</td>
<td>145.08</td>
</tr>
<tr>
<td>Gross profit</td>
<td>79.036</td>
<td>72.798</td>
<td>92.11</td>
</tr>
<tr>
<td>Tax profit</td>
<td>12.646</td>
<td>11.497</td>
<td>90.91</td>
</tr>
<tr>
<td>Net profit</td>
<td>66.390</td>
<td>61.301</td>
<td>92.33</td>
</tr>
</tbody>
</table>

Financial return = \( \frac{\text{Net.profit}}{\text{Equity capitals}} \)

\[
\begin{align*}
\text{Financial return} &= \frac{66.390}{1,010,207} = 6.57 \\
&= \frac{61.301}{1,078,552} = 5.68
\end{align*}
\]

Economic rate of return = \( \frac{\text{Operating.profit}}{\text{equity capitals} + \text{debts} \Phi \text{1 year} + \text{bank credits on short term.}} \)

\[
\begin{align*}
\text{Economic rate of return} &= \frac{30.709}{1,010,207} = 3.04 \\
&= \frac{-226.994}{1,078,552} = -
\end{align*}
\]

Commercial rate of return = \( \frac{\text{commercial margin}}{\text{goods.sale}} \)

\[
\begin{align*}
\text{Commercial rate of return} &= \frac{147,05}{1,451,474} = 20.27 \\
&= \frac{359,639}{3,376,000} = 10.65
\end{align*}
\]
CONCLUSIONS

The following conclusions regarding the enterprise’s performance may be drawn from the presented data:
- financial return in 2009 is lower than in 2008 (86.45%);
- commercial return in 2009 is lower than in 2008 (52.54%);
- in 2009, the operating incomes came from selling goods, 61.06% in comparison to 36.02% in 2008.

In terms of leasing as a form of financing, the company used this method and survived until now regardless of the fact that in 2008 a competition started to occur between foreign investors that wanted to lease as much land as possible.

REFERENCES