

# Trends and factors of assets and capital in enterprises of primary agricultural production

## *Trendy a faktory majetku a kapitálu v podnikoch poľnohospodárskej prvovýroby*

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**Abstract:** A smooth entrepreneurial activity requires adequate cash flows. This need is quantified due to the special position of primary agricultural production. The required volume, structure, quality and availability of financial resources creates economic framework for decision making and managing entrepreneurial activities. The results show the lack of total capital in connection to the needs of investment processes and ensuring operational activities in the selected enterprises. Both legal entities (agricultural cooperatives and business enterprises) decreased the total volume of assets and total liabilities in 2004. The economic result was improved in both types of legal entities, in the case of cooperatives by 3 525 SKK/ha a.l. and in business companies by 1 840 SKK/ha a.l. Receivables and payables also decreased, cash flows from business activities have increased. There is a decrease in the balances of the existing loans and new loans were provided by commercial banks for enterprises in primary agricultural production.

**Key words:** assets, capital, equity, payables, economic result

**Abstrakt:** Plynulosť priebehu podnikateľskej činnosti vyžaduje adekvátny tok peňažných prostriedkov. Vzhľadom na osobitosti výrobného procesu v podnikoch poľnohospodárskej prvovýroby je táto požiadavka osobitne preukazná. Požadovaný objem, štruktúra, kvalita a disponibilita finančných zdrojov vytvárajú ekonomický rámec pre rozhodovanie a riadenie podnikov. Výsledky v hodnotených podnikoch dokumentujú nedostatok celkového kapitálu vo väzbe na požiadavky investičného procesu i zabezpečovania prevádzkovej činnosti podnikov. V poslednom roku analýzy v obidvoch právnych formách podnikov došlo k zníženiu celkového majetku i celkových pasív. Medziročné zlepšenie výsledku hospodárenia dosiahli obidve právne formy, poľnohospodárske družstvá o 3 525 Sk/ha p.p., obchodné spoločnosti o 1 840 Sk/ha p.p. Priaznivé tendencie sa dosiahli v poklese pohľadávok i záväzkov, dochádza k oživeniu peňažných tokov z obchodného styku. Pozitívne možno hodnotiť pokles zostatkov existujúcich úverov a zo strany komerčných bánk alokáciu nových úverových produktov do podnikov poľnohospodárskej prvovýroby

**Kľúčové slová:** majetok, kapitál, vlastné imanie, záväzky, výsledok hospodárenia

Entrepreneurial activity and economic results are influenced by the volume and quality of financial resources. The increase in the dynamics of the long term property requires a certain amount and structure of operational property and solvency. It depends on the quality of financial resources.

Specific conditions of entrepreneurial activities in agricultural production in comparison with other entrepreneurial companies have a concrete impact on the assets and financial situation. Reproduction process of acquiring tangible investments, as well as own inventory production and in-plant services necessitate an increased pressure on the available financial

resources. Financial competitiveness of inputs in the entrepreneurial environment in connection to costs negatively influences the financial results of these companies. Business relations are realized in the economic environment of mutual insolvency. We can assume that if it is a problem to produce inventory and sell it, then the same problem is to secure the collection of receivables. Receivables and payables from business relations have been a problem of the quantitative and qualitative aspect of the financial base. Serenčák (2006) analyses and evaluates the efficiency of primary agricultural production in Slovakia and the presents causes of indebtedness. Bečvářová

(2006) and Bielik, Sojková (2006) deal with the assumptions of competitiveness. The development of assets and capital in a selected dataset of agricultural cooperatives and business enterprises in the Slovak Republic is also analysed by Hacherová et al. (2003). Economic result is a complex indicator of economic efficiency, solvency represents the economic health of the company. The unfavourable situation is shown in the total balance equation in the selected companies, when they stagnate in the long term, their total assets decrease. This fact has a similar impact on the total capital. The level of development and structure of capital is negatively influenced by the area of own capital – equity. This development is influenced by several factors. Bojňanský et al. (2004) list the basic factors, which participate in the volume of equity in individual statement of accounts. This fact is influenced by several factors, from which loss declared for the accounting period is mentioned, the lack of reserve creation and the unpaid loss from the previous years also influences equity. A problematic item is the volume, but especially the quality of the total receivables, debt creation with emphasis on the total development of receivables, especially the receivables from business relations. Even cash flows are partially increased, but receivables negatively influence the liquidity of enterprises.

## MATERIAL AND METHODS

This paper deals with selected problems of assets, financial and revenue situation in enterprises. We have used the aggregate data for the selected enterprises in primary agricultural production in Slovakia, based on the legal form of business separately for agricultural cooperatives and business enterprises in agriculture. Synthetic data are from the yearly account statements

of the companies from the time period 2000–2004. The analysed data-set represents about 80% of the utilized agricultural land in Slovakia. We have to mention that this time series data does not cover the same enterprises each year. The selected ratios show the results for the whole Slovakia, due to their coverage. The presented results represent the partial outcome of the research project with the title Assets and Capital in Primary Agricultural Production. The selected indicators are in SKK/ha agricultural land (a.l.) computed based on the Land Parcel Identification System. These indicators are the base for the trend analysis of economic development and the financial performance evaluation.

The paper focused on the evaluation of the development of total assets, analysis of the capital – equity and debt. The complex explanation of economic performance is supported by the development level of the economic results. Solvency is evaluated by the volume and quality of receivables and payables. We applied analytical tools connected to the effects, which caused the status quo. Base indices are used to show the level of development. Horizontal and vertical comparison was used to evaluate the organizational and legal forms of businesses. Partial results present the synthesis of the determinants influencing financial performance of agricultural holdings.

## RESULTS AND DISCUSSION

Assets situation in the enterprises is given by the volume and structure of assets. Long-term assets are characterized by a high fastidiousness on financial resources. The dynamics of acquiring tangible assets or their technological valorisation is an outlasting problem in the selected enterprises. The level of development of assets is presented in Figure 1.

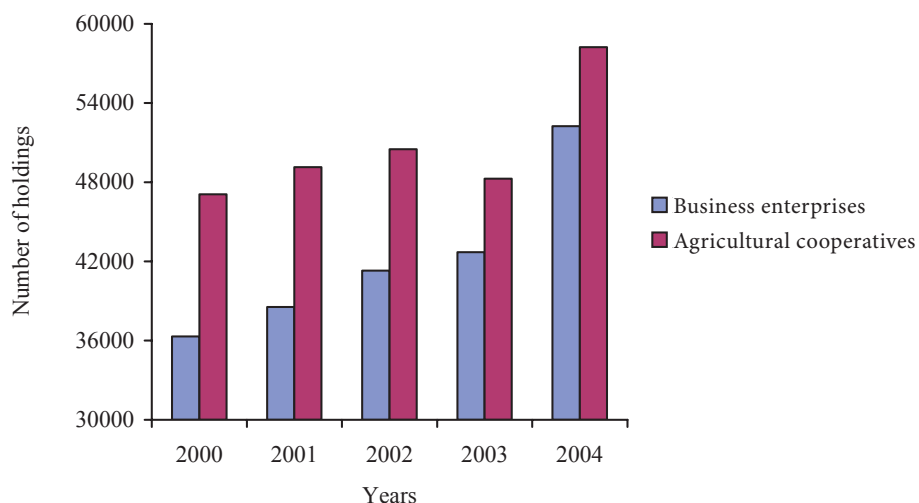


Figure 1. Level of development of property in SKK/ha a.l.

In both legal forms the property – total assets decreased in 2004; in agricultural cooperatives by 22.2%, in business enterprises by 10.6%. The factors which influence this situation had specifics in the current and non-current assets.<sup>1</sup> Non-current tangible assets were characterized by the following problems:

- high decrease of tangible assets (by sale or liquidation) especially in agricultural cooperatives;
- low rate of investment into tangible assets, what we can assign to the lack of resources within the year. Investment decreased by 0.10%. Most of the investments were oriented on the purchase of machinery and equipment (46.4% from all investments), then on investments to buildings (25%) and livestock (21.3%). The decreased volume of investments was due to the loss in agricultural production in 2003 and the change of the payment system according to the Common Agricultural Policy of the European Union;
- high binding of the non-current tangible assets in agricultural cooperatives, especially the stables for cattle production, where a lower number of animals with high acquisition prices and inefficiently used stables increase the costs of production through depreciation;
- obsolescence of the depreciated property in agricultural cooperatives was 50.9% in 2004, in the case of machinery and equipment 75%. This fact shows the need to restore the agricultural machinery. The use of these tangible assets increases the operational costs for repair and maintenance. Business enterprises had the obsolescence level of the tangible assets 39.8 %, what is connected to the later acquisition of assets;

– current assets also decreased in 2004. The lack of financial resources forced both legal forms to save money from inputs to the production process, what caused the decrease in the inventory of materials;

- inventory of own production, especially finished goods, stagnated in comparison with the year 2003. One of the causes why inventory of the finished goods (notably grain) remained in stock was that the companies waited for better sales prices;
- Tables 1 and 2 show the unfavourable conditions of the receivables in 2004. The total volume of receivables in SKK/ha was increased in agricultural cooperatives by 927 SKK/ha. This situation is due to the decrease in the liquidity of customers, which results to an increase of the receivable payments. Business enterprises declared a positive trend of the total receivables, because they decreased them by 413 SKK/ha.

The principal balance of the property in the balance sheet is conditioned by the same volume of capital – sources of financing. An important economic criterion is the structure of the total resources, namely the proportion of equity – own capital and debt – liabilities.<sup>2</sup> Figure 2 shows the decrease of equity in 2004 in agricultural cooperatives by 7.50%.

This situation was influenced by the unpaid loss from the previous years, the insufficient creation of reserve funds as well as the amendment of accounting methods and accounting provisions effective from the 1<sup>st</sup> of January 2004. These changes were connected to excluding of several items from non-current intangible assets, for example: training expenditures,

Table 1. Receivables and payables in agricultural cooperatives in SKK/ha a.l.

Indicator	2000	2001	2002	2003	2004
Receivables in total	4 529	4 395	4 420	4 054	6 168
Receivables after maturity	2 888	2 724	2 679	2 341	*
Payables in total	9 322	9 163	8 986	8 868	10 488
Payables after maturity	4 191	4 051	4 121	4 023	*

Note: \*data were not available

Table 2. Receivables and payables in business enterprises in SKK/ha a.l.

Indicator	2000	2001	2002	2003	2004
Receivables in total	5 196	5 470	5 873	6 924	8 994
Receivables after maturity	2 871	2 757	2 677	3 567	*
Payables in total	15 436	15 617	14 742	16 050	18 384
Payables after maturity	6 291	5 934	5 722	6 674	*

Note: \*data were not available

<sup>1</sup>Non-current assets consist of non-current intangible assets + current intangible assets + non-current financial assets. Current assets include inventory + receivables + current financial assets.

<sup>2</sup>Equity = own capital: share capital + capital funds + funds created from profit + profit or loss from previous years + profit or loss for the accounting period.

External resources = external capital: provisions + total liabilities + bank loans.

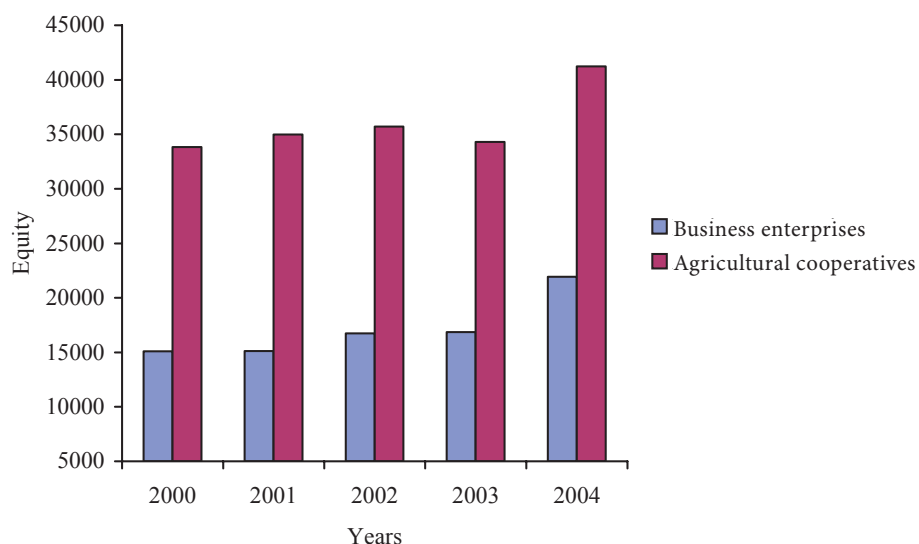


Figure 2. Equity in SKK/ha a.l.

market surveys, marketing studies, advisory services, acquiring certificates, launching new products on the market, restructuralisation and reorganization of the companies. These listed costs are not any more non-current intangible assets, but they are part of the costs from the operation of companies. The accrual price of these items in the accounting period 2004 had a negative impact on equity in the item profit or loss from previous years, because they increased the accumulated losses from the previous years or decreased the retained earnings from the previous years. The financial proposition of companies was realized according to the national support policy and after the EU accession according to the CAP in 2004. The intra-year improvement of the economic result was declared in both legal forms as it is indicated in the Figure 3.

Agricultural cooperatives increased their economic result by 3 525 SKK/ha a.l. business enterprises by

1 680 SKK/ha a.l. from loss in 2003. 79% of agricultural cooperatives and 87% of business enterprises reached profit from the selected database in 2004. The economic result was mainly influenced by payments from the EU, because their volume was higher as subsidies in 2003 by 20%. The increase of payments is due to the increase in single area payments based on the LPIS. After the accession to the EU according to the legislation of the EU, the date of direct payment transfer was changed due to the realization of the administrative control and the controls on the spot. The final date of the money transfer for 2004 was moved to the first quarter of 2005 what had a negative impact on the available financial resources of the companies.

The increase of the number of profit declaring companies was partially supported by the decrease of costs by 5% and a slight increase of a the total revenues by 0.8%. It is important to mention, that

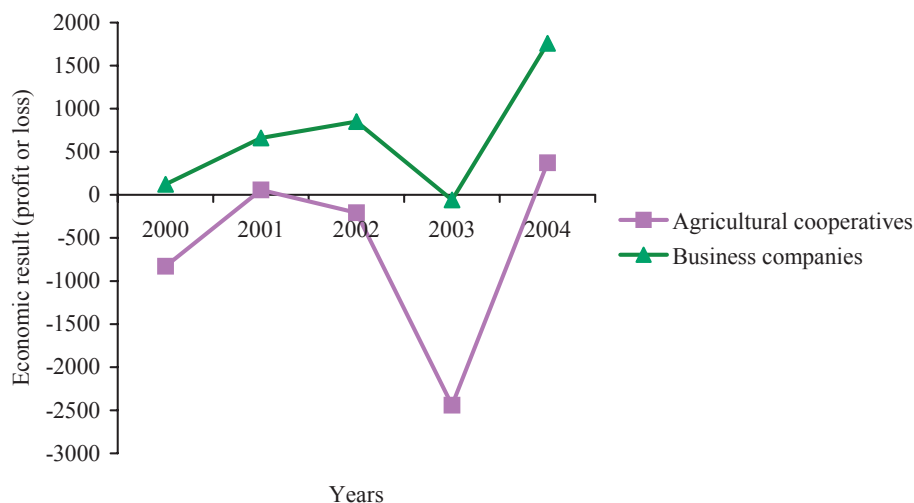


Figure 3. Economic result (profit or loss in SKK/ha a.l.)

the restriction of inputs due to the lack of financial resources in the first half of the year 2004 forced companies to economise.

The volume and structure of external capital presented in Figure 4 – external resources<sup>3</sup> – was influenced by several factors. An insufficient creation of own resources for operation accumulated the pressure on the share of payables, mainly from business relations. Agricultural companies have been struggling with insolvency. It was a decrease of payables in both legal forms of businesses (Tables 1 and 2), which has a positive impact of the payment discipline. Instead of this positive tendency, payables are approximately twice as high as receivables. We can conclude that companies have still problems with solvency.

Bank loans have an important position in the structure of external resources, especially short term bank loans. The access to bank loans was problematic for agricultural companies in the previous years. Companies do not fulfil the financial and non-financial criteria of banks for the new loans allocation. Nowadays, the supply of short term loans has increased due to the certainty of direct payments from the European funds. The access to loans and pre-financing of the yield should be without problems. This situation gives a good reason for commercial banks to try to attract agricultural companies. The increase in loans can be explained by the fact, that development projects financed from structural funds of the EU are financed after their realization. Up to this period, own or external resources are needed. To provide loans, commercial banks require a collateral, which cannot be the financed investment.

Long term loans are stagnating in the selected dataset of companies in both legal forms. The intra-year increase of loans by 9% in 2004/2003 is due to the short term loans, which have a share of 46%, the medium term loans with the repayment period 1 to 5 years are 32%, and new long term loans are represented by 22%. Most of the investments went to agricultural machinery (46%) and livestock (25%). The high rate of deterioration of machinery and equipment (mainly in agricultural cooperatives) brings about the need to increase long term loans as a part of external resources. The analytical view about the financial situation of companies could be summarised in 2004 as follows: business enterprises invested more and their indebtedness was twice as high (52.7% external resources/property) as in agricultural cooperatives (36.7%), which reached the same level as it was in 2003(Chrastinova 2005).

Reserves exist in the structure of external capital. The legislation defines them as the following:

- future payables,
- they were created from previous events,
- it is likely that they will decrease economic benefits,
- they can be priced according to the Act on Accounting<sup>4</sup>,
- they are stated at the balance sheet in account closure.

The asset and capital structure is influenced by the accounting legislation. The new amendment of the accounting law on enterprises had the following impact on capital:

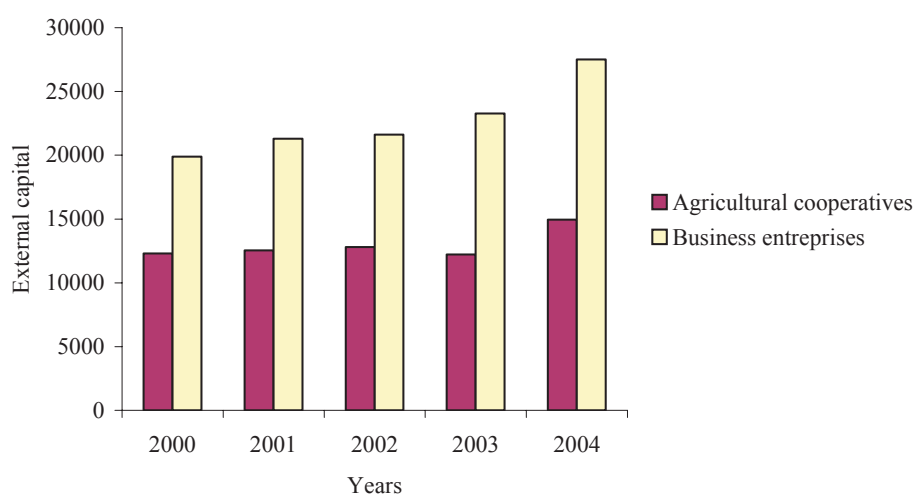


Figure 4. External capital in SKK/ha a.l.

<sup>3</sup>External resources according to the balance sheet are: long and short term payables + bank loans and financial assistance + accruals or deferrals (accrued expenses, deferred income).

<sup>4</sup>Act on Accounting n.431/2002 Coll. including amendments.

- Change of capital principle to revenue in recording investment subsidies since 2000. This modification eliminates the impact of subsidies on equity, it is in agreement with the International Accounting Standard IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
- Cancellation of the provisions creation for property, plant and equipment since 2004. The unspent balances of legal at the end of 2004 have changed the structure of capital in favor of the retained earnings from the previous years, therefore it increased equity of the entrepreneurs.

## CONCLUSIONS

Possession of the required volume and structure of assets in the company depends on the availability of financial resources. The level of equity development and external capital is shown by the rate of self-financing and the total indebtedness of companies. The results of the evaluated data set present the importance of profit or loss in the structure of equity. The proportion of payables highly contributes to the structure of external capital. Even if there is a partial release of financial flows, companies do not have enough cash, which limits their solvency. There are also problems in companies, which declare profit. The structure of capital is influenced by the amendment of the accounting methodology in the financial accounting and the reporting individual statements of finances. The settlement and recording based on revenue principle has started from 2006 as well as in the case of cost free acquirement of property. This way of acquiring property has no impact on equity.

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