

Assets and financial situation in the companies of agricultural primary production in Slovakia

Majetková a finančná situácia subjektov poľnohospodárskej prvovýroby na Slovensku

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Abstract: This paper analyses assets and liability structure on the selected data set from the primary agricultural production in Slovakia. Accounting is presented as a complex foundation, information system, which provides information for decision-making and company management. The source of input data are accounting records generating statements of finances. The theme of the paper is selected issues of balance sheet analysis. The results of the research show unfavorable total assets development. The index 2000/1999 has the value 96.7. There are long-term problems in liabilities volume and structure. Equity capital stagnates. Borrowed capital decrease because of the decrease in loans. Loans were 2 741 SKK/ha in 2000. Most of the companies are in primary insolvency position, when payables after maturity are twice higher than receivables after maturity.

Key words: assets, liabilities, balance sheet, loans, payables, receivables

Abstrakt: Príspevok analyzuje majetkovú a kapitálovú štruktúru za výberový súbor podnikov sektoru poľnohospodárskej prvovýroby Slovenskej republiky. Prezentuje účtovníctvo ako základný komplexný, informačný systém zabezpečujúci informácie pre rozhodovanie a manažment podniku. Východiskom zdrojom vstupných informácií sú účtovné výkazy tvoriace účtovnú závierku. Predmetom príspevku sú vybrané otázky bilančnej analýzy súvahy. Výsledky práce dokumentujú nepriaznivú úroveň vývoja celkových aktív. Index 2000/1999 dosahuje hodnotu 96,7. Dlhodobo pretrvávajú problémy aj v kapitálovom objeme i štruktúre. Stagnuje, resp. znižuje sa vlastný kapitál. Na poklese cudzieho kapitálu má značný podiel útlm účasti úverov v cudzích zdrojoch. V roku 2000 tvorila úverová záťažnosť 2 741 Sk/ha. Prevažná časť podnikov sa nachádza v prvotnej platobnej neschopnosti, keď záväzky po lehote splatnosti sú dvojnásobne vyššie ako pohľadávky po lehote splatnosti.

Kľúčové slová: majetok, kapitál, súvaha, úvery záväzky, pohľadávky

INTRODUCTION

Quantitative and qualitative side of the financial base is the analytical view to assets and liabilities of the entrepreneur. Total assets volume and structure are described in balance comparison of total liabilities volume and structure. These information are the initial base for the entrepreneur financial analysis. Bielik (2001) states, that the dynamics of asset development has a direct connection to entrepreneur disposable financial funds. Belica (1999) commented the need of specific loan products for agricultural sector, and highlights escont loans as an instrument for goods and cash flow release. Chrenka (2001) compares the property situation in Slovak farms with farms in Germany. He concluded with a statement that German farms have several times more fixed tangible assets. Hulik (2000) evaluates adjustments to assets and emphasizes their importance from the real allocation point of view in the balance sheet. Stress is put on meeting the basic principle of accounting- true representation of the reality. Gozora (2000) presents the problems of

assets and liability situation in the agricultural primary production companies in the process of transformation in newly established organizational entities.

MATERIAL AND METHODS

The content of this paper is focused on selected problems of assets and financial situation. The analytical view is important in the process of fixed assets evaluation especially their structure and development level in connection to causes which stipulate this trend. Balanced approach creates double entry asset evaluation, its structure, weaknesses and strengths of total financial sources. Entry data set for analysis is created by the aggregated data for selected agricultural cooperatives in Slovakia with 70–80% agricultural field concentration. Some results, know-how, and topics are part of the output from the research project, which corresponds with the orientation of the paper. Entrepreneurial activity indexes are calculated from the data set, which covers the

time period from 1993 to 2000 when the new accounting and taxation system has been introduced. The paper also describes selected issues of the current accounting legislation in the area of fixed assets and equity capital with the focus on harmonization need for the content of basic balance sheet elements. The processing technique presents standard methods application e.g. topic assessment analysis, ratios, basis and yearly indexes, content term comparison, synthesis of partial knowledge and results.

RESULTS AND DISCUSSION

Entrepreneurial activity of primary agricultural companies is realized in financial tension conditions between needs and sources of financing. Lack of equity capital has a tangible negative impact on the volume and asset structure of assessed companies. The negative tendency is shown in graph 1 for selected time period. The total financial resources was decreasing, where the basic index 2000/1993 was 79.9.

There are several reasons for the unfavorable equity capital development level:

- Outlasting loss is the primary cause for this development level. Basic capital has been decreasing for the whole time period. The index is 97.7 for 2000/1999. Basic capital and funds generated from profit is the reason for this decrease. Reduction of this decrease is caused by capital funds. It is connected to the long-term payables clearance from transformation in favor of these elements of equity capital. It is the result of those companies, which declared profit in the analyzed data set. Attenuation of decrease is positively shared with profit and loss for the current year in the form of loss decrease. Loss was declared for the accounting year 2000. It was –503 SKK/ha, which represents –300 SKK/ha decrease. Equity capital is also influenced by outstanding loss from previous years.

Similar tendency is indicated in the case of borrowed sources. The volume of borrowed sources decreased by 13% in the year 2000. It is a consequence of:

- Already mentioned decrease in payables from transformation and ownership rights. Main balance sheet elements of borrowed sources are presented in Table 1. A positive tendency is in the case of total payables, con-

clusive evidence is in the case of payables from business relations. This fact implies vitalization of cash flows. Payables after maturity in comparison with receivables after maturity show a long lasting stage, when payables after maturity are twice higher than receivables after maturity. Insolvency has been outlasting. The economic problem of cash flow is connected to time maturity of payables and time maturity of receivables. Bank loans are still problematic in the pool of financial base in the agricultural companies. Loan indebtedness was 2 741 SKK/ha in 2000 (Table 1). Long term loans are missing, companies finance developing investments mainly from equity capital. There are several reasons. First of all, the existence of the old basket of loans, reduced possibilities for new loans, interest rate of new facilities as well as precaution of commercial banks in the process of loans allocation to the primary agricultural production.

- Except equity and borrowed capital, the total volume of liabilities consists of other liabilities as well. The amount in the data set for this element of the balance sheet was 1 075 SKK/ha in 2000. Almost three times higher increase was against year 1999, because of the change in legislation with regard to investment subsidies. Investment subsidies were regarded as a part of equity capital and increased capital funds till 1. 1. 2000. Received investment subsidies have been a temporary liability, and they are settled as future revenues and they are temporary liabilities. They are dissolved to operating revenues in the form of depreciation. This legislative amendment has an impact on the liabilities structure in the equity capital disadvantage. The above-mentioned methodology adjustment is in direct connection to subsidy tax amendment according to income tax legislation (Law n. 366/1999 incl. Amendments).

Structure and development level problems of liabilities are in direct connection to entrepreneur asset situation. Asset situation was analogical. There was no change in the level of development in 2000. Fixed and floating assets decreased. Fixed assets had the following problems:

- Fixed tangible assets are still bounded, mainly as a consequence of high residual cost of immovable fixed tangible assets.
- High decrease of fixed tangible assets in connection to investment activities.

Table 1. Loans, payables and receivables in SKK/ha

Coefficient	Mesurement	1993	1994	1995	1996	1997	1998	1999	2000	2000/1999
Short-term receivables	SKK/ha	4 958	4 830	4 620	4 731	5 320	5 361	5 161	4 201	0.81
Receivables after maturity	SKK/ha	3 356	3 310	3 246	3 730	3 669	3 656	3 420	2 888	0.85
Receivables collection period	days	106	95	94	93	99	100	98	90	0.92
Payables in total	SKK/ha	16 321	15 980	15 200	14 694	13 178	11 820	1 0842	9 330	0.86
Payables after maturity	SKK/ha	8 627	9 141	10 206	8 130	7 432	6 930	6 683	4 191	0.63
Payables maturity period	days	150	148	130	124	118	115	112	105	0.93
Bank loans	SKK/ha	5 900	5 867	6 324	5 573	5 164	4 219	3 274	2 741	0.84

Source: Information bulettion of the MA and AERI

- Unfavorable fixed tangible assets structure (buildings, halls, constructions in relation to movable fixed tangible assets.
- High degree of depreciation, critical in case of machinery, equipment and transport machinery = 73%.
- The results confirm that it is necessary to provide advance payments for investment.
- Positive tendency is proved. Higher acquisition of tangible investments in 2000 in comparison with previous year (Figure 2, index 126), evidently in case of invest-

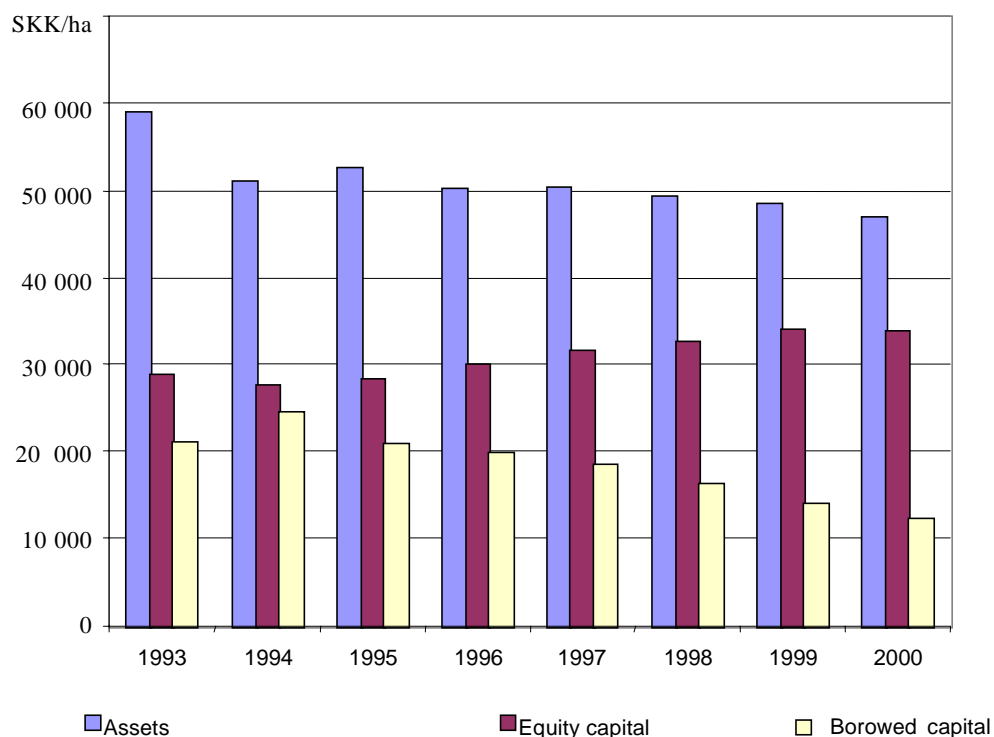


Figure 1. Assets and liability structure in SKK/ha

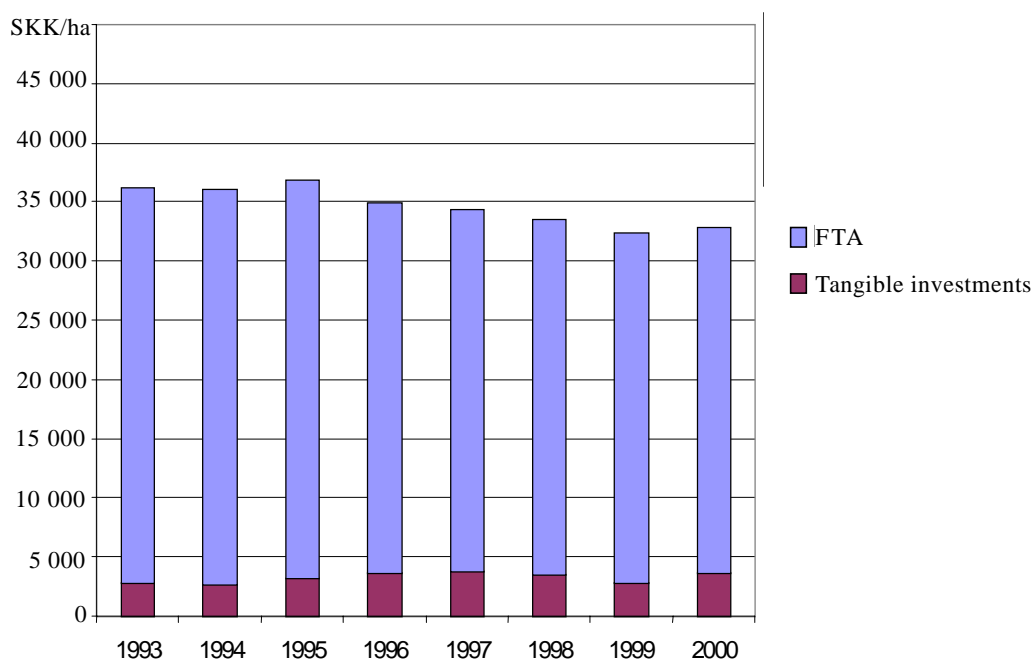


Figure 2. Reproduction coefficients of fixed tangible assets

Source: Ministry of Agriculture

ments to machinery. New investments to machinery and equipment were 1 370 SKK/ha in 2000. Boosting new investment opportunities or technical valorization of existing fixed tangible assets have not been opening dynamic increase of fixed assets in connection to liquidation of fixed tangible assets.

Floating assets structure and development trend shows some positive characteristics too:

- Cash flow is a current financial situation determinant. Profit is bound in receivables in case of profitable companies too. Statement of finances results presents a partially better cash flow due to total receivables decrease. Short-term receivables were 4 201 SKK/ha for the data set in 2000. Even if the nominal value of receivables has decreased after maturity, these juridical claims are approximately 60% from the total volume of contractual receivables. The main reason from the point of creditors is long-term insolvency of debtors.
- Decrease in payables at the end of the year is expressed in slight increase of short-term financial assets. In case of positive payment discipline trend, primary insolvency is still an attendant phenomenon, in which more than half of the companies were from the data set. Lack of own money, stagnation of loans in borrowed capital, principal and interest payments deepen the problems of financial management in the companies.
- Decrease in inventory is a result of reduced production of self produced inventory, but also the consequence of financial savings from operating inputs of production.

The result synthesis proves the connection and continuity of individual asset, financial and economic relationships. Usability of indicators for company management depends on the conclusive evidence of analytical data.

The basic requirement for accounting information quality is to provide meaningful, relevant, accurate, timely and comparable information. The secondary function is in connection to information publication for external users. Current legislation defines the minimum obligatory amount of data for selected accounting units. On one side, entrepreneur's business information is protected, on the other hand, there is a lack of information, mainly for the state administration needs. It is difficult to obtain information from legal entities above the defined minimum framework, physical entities are not obliged to provide any information. This is the reason why results from the data set show the reality, which is possible to compare in time period, analyze and synthesize to effective conclusions and measures.

The next problem, which should be solved, is the inconsistency of legislation in the area of terminology and matter-of-fact. The high number of amendments and laws, their changes and ambiguous explanation cause "grinding places" in business conflicts and tax inspections.

As an example of inconsistency in legislation, there are terminological differences of conceptual apparatus, which correspond with the topic of this paper. The Commercial Code (Act No. 513/1991 incl. Amendments) as a general norm for commercial law and Accounting Law

(Act No. 563/1991 incl. Amendments) – specific law about the ways, content and scope of accounting practice. The Commercial Code defines "Business property as a compendium of property value (merit), which belongs to entrepreneur and is used for entrepreneurial activities". This statement explains that property represents property value, i.e. property is understood as property. The accounting Law uses "property" but does not identify the content. Property, and its classification are presented in Accounting procedures. Despite of this confusion, "business property" in accounting law, one of the constraints for verification of closing account by auditor, has been the amount of "business property" since 2000. Nowadays, the Accounting Law does not state the factual side of "business property". Similar legislative problem arises in the case of "own sources". Ambiguity is discovered when one legislation refers to another one, in both cases terminology and content should be ensured. Synonyms like "own sources", "equity capital", "net commercial assets", and "own property" should have unambiguous binding content in the normative determination and consecutive quantification. We focused on only "property" and "capital". Similar differences exist in other spheres of legislation as well.

Any management, any financial management cannot operate without sufficient and accurate information. One of the important sources of this information is the financial accounting, especially its final part i.e. accounting statements. Nowadays and in the near future, accounting should cope with changes in national, but also international economic environment. First of all, it is the legislation harmonization on the national level, which is terminological and factual unification in current accounting in connection to appropriate categories of commercial and tax legislation. Current accounting regulation does not comprise basic terms, generating part of operating accounting and statement of finances, as it is: assets, liabilities, equity capital, payables, income, and costs... The aim is to approach accounting rules and regulations, mainly accounting statements of the European Union and the International Accounting Standards (IAS) directives. Harmonization of accounting system with the EU directives and IAS primary depends on the commercial, financial, social security forwardness and other factors.

CONCLUSION

Assets and capital structure mainly determine the result of entrepreneurial activities. Development of the fixed and floating assets level is in direct connection with the structure and volume of financial resources. The results of this research pinpoint weak spots in the financial base of primary agricultural production. The data show a decrease in equity because of the economic loss in the current year and non-leveled loss from the previous years. The borrowed capital level in total is the result increased bank loans to the primary agricultural

production. The decrease in foreign capital in agricultural cooperatives is partly the result of the settlement of long-term liabilities from transformation as well as settlements to capital funds. Money flow revival from business connections has a positive impact on payment ability expressed by reduced maturity of total claims. In spite of this trend, claims represent twice the nominal value of liabilities, which results in primary insolvency. A serious problem is collection of claims from debtors. Enterprises with a permanent loss and high volume of credits worsen the economic results in agriculture, which in turn presents barriers to future development and access to subsidies.

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Arrived on 28th May 2002

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