ASPECTS OF THE ACCOUNTING TREATMENT OF ASSOCIATIONS FOR JOINT USE OF MACHINE-TRACTOR FLEET IN AGRICULTURE

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Abstract
The Associations of Companies operating in the Agriculture Sector benefit from a number of advantages – they are easier adaptable to the European market and more competitive. Similar structures have easier access to credits, logistics, marketing, commerce, processing and distribution. Their aim is to secure fair incomes for the employees in the sector, specialization of production within the EU, and the same quality standards applied to the whole products chain. Besides the fact that these associations eliminate the middlemen, they also take care that the production of their members meets the requirements of the market and the quality and quantity criteria. The point of these organizations is to reduce the overall costs through sharing resources such as machines, joint purchasing of inputs, etc.

The establishment of arrangements for joint use of machinery in agriculture is not a common practice in Bulgaria for the time being. This is due to various reasons, but the fact that they are widespread in the EU shows that they have their own place among the other structures in Agriculture. The fact that the creation of such arrangements is stimulated by the European programmes, as well as the fact that they are a good alternative that offsets the lack of machine-tractor fleets in a number of agricultural farms, give reasons to assert that soon they will become reality for Bulgarian Agriculture as well.

The accounting treatment of similar structures depends on their legal form, on the arrangement agreement terms and conditions, and on some other facts and circumstances. The accountancy rules in the individual reports of the associated parties form subject of the International Financial Reporting Standards.

Key words: associations, machine-tractor fleet, joint arrangements, joint operation, joint venture

INTRODUCTION
There is a widespread form in the West-European countries of using the machine-tractor fleet services in Agriculture – *Arrangements for shared use of the machine-tractor fleet* (Naydenov, 1994). "The agricultural co-operatives in the EC countries carry out on average about 60 percent of the processing and realisation of the agricultural products and they provide the farmers with about 50 percent of the machinery and other equipment." (Hristova et al, 1993, p.15)

There are different forms of joint use of agricultural equipment, and according to the level of collectivity and commitment those are: neighbourly help, machinery banks, machinery partnerships, machinery circles, machinery rings, co-operatives to jointly conduct land reclamation and irrigation, machinery hire stations, etc. "The high prices of machinery and the seasonality of the agricultural production process call for such a co-operation. The specialized agricultural equipment is in use during a very short period every year, but that use is highly intensive and the workload is high and the expenses for machine processing form a large share - about 1/3 of the total production costs in the farms" (Naydenov, 1994, p.20).

Although it is a common practice in the EU countries, Bulgaria is just starting to make its first steps towards establishment of such arrangements, even though these are supported also under the Rural Development Programme (years 2007-2013, 2014-2020). In one of their studies Nikolay Naydenov and Zornitsa Bogdanova identify the main problems in the establishment of similar type of organizations (Naydenov and Bogdanova, 2009):
the farmers do not believe that such arrangements have the potential to help them;

- concerns about their sustainability, lack of understanding of the activities where arrangements are appropriate;

- barriers resulting from the national psychology of the Bulgarians and their strong sense of individualism, as well as from their low activity as people;

- the excessive requirements for the formation of organizations.

Nevertheless, they conclude that there is a trend of increasing the number of farmers organisations registered in Bulgaria. It is likely that in future their number will grow continuously, because they offer a good alternative for offset of the lack of machine-tractor fleet in many farms.

TYPES OF ARRANGEMENTS AND THE SPECIFICS OF THEIR ACCOUNTING REPORTING

In the Neighbourly Help, the owners of the machines render services to each other in the event that there are idle capacities. The neighbourly help may be agreed in an agreement, although such a commitment form is not mandatory. Such mutual services are accounted for as external services to the user's enterprise.

The machinery banks are organisations of intermediary nature and with their own personnel. Each machines owner - member of the association prepares an order form indicating the additional machines he needs and the length of time for which he is going to use those, as well as the idle machines and time available with him. By using the information supplied in the order forms, the machinery banks prepare schedules for use of the machines. This way they achieve co-ordination of all the owners' interests and the most rational use of the machine-tractor fleet available. These mutual services provided by the machine-tractor fleet are accounted for similar to the Neighbourly Help – as external services to the service user. The difference is that the machinery banks provide some co-ordination of the use of the available equipment with the consent of its owners. Each owner of machines reports the expenditure and the income from their use in his own accounts.

The machinery partnerships are formed by equipment owners whose farms are of the same or similar specialization. They not only jointly use the existing machines fleet, they also purchase with common funds some special machines and equipment for the purpose of the partnership. Thus they achieve reduction of the investment costs, and after the acquisition of the equipment – reduction of it's subsequent maintenance costs.

The machinery circles differ from the machinery partnerships for the large number of specialists which they employ for maintenance and repair of the equipment, as well as for the existence of common repair centers, buildings and facilities. They regulate the equipment use schedules and they render services of preparing the order forms and reporting the work completed.

The following issues are treated in the Machinery Partnerships and Machinery Circles Formation Agreement:

- the way of sharing the initial inputs for the machine-tractor fleet for joint use between the members – acquisition costs, insurances, etc.;

- the way of sharing the subsequent expenses for the use and maintenance of the machines – fuel, lubricants, repair and maintenance, etc.;

- the organisation of use of the available equipment - "...it applies the rotation principle which stipulates that one of the members will be the first to use the machine in the season and for the next season this right will pass on to the next member. Also, the period of time for each member to use the machine is agreed in advance. This is set according to the volume of work of each one of the members, the soil type, the plants cultivated, etc., whereas the probable weather conditions for the season are taken into consideration" (Koap et al, 1994, p.149);
• the machine-tractor fleet maintenance – the responsibilities for this are set out, the storage, etc.

_The machinery rings_ are another type of arrangements where the machinery is a sole ownership of the members, and the ring functions as a provider of mechanics services when necessary. The principle of functioning of the machinery ring is the following: the members pool their machine-tractor fleets for the purpose of carrying out common activities. The ring does not own the farming machinery. The members appoint a co-ordinator – yard master whose assignment is to make the interests in offering and using services "meet up". Each member pays a membership fee which is proportionate to his share in the business operations. The Managing Board of the ring determines the service fees and these are revised once every several months depending on the market. Non-member structures may also use the services offered by the arrangement.

The machinery partnerships, circles and rings are joint ventures under the IFRS 11 Joint Arrangements. In such cases the contractual arrangement between the partners sets out their rights over the assets and their responsibilities for the liabilities, their rights over the earnings and their responsibilities for the expenses of the joint arrangement. The Joint Arrangement is not structured as a separate entity.

For the purpose of IFRS 11, the partners exercising joint control on an arrangement are called joint operators. Joint control is a contractually agreed sharing of the control of a joint arrangement, which is demonstrated in taking decisions with the unanimous consent of the parties sharing the control.

Each joint operator:
• use their own property, facilities and equipment, as well as their own material stocks; they incur their own expenses and liabilities and they provide their own financing;
• receive a share in the sales and services revenue as set out in the contractual arrangement.
• Each joint operator accounts for and records in its individual financial reports, and consequently in its consolidated financial statements:
• its assets, as well as its share in all the jointly held assets;
• its liabilities, as well as its share in all the jointly held liabilities;
• the revenue from the sale of its share in the products or services received from the joint arrangement;
• its share in the revenue from the sale of products or services generated by the joint arrangement;
• its expenses including its share in all the jointly incurred expenses.

Farmers who do not have joint control, but do hold rights on the assets and responsibilities for the liabilities of the joint operations, are also eligible for membership in the arrangements. They should account for their share the same way the joint operators do. Parties to the joint operation, which do not have joint control on it, nor any rights on its assets or responsibilities for its liabilities, should account for their share in accordance with the IFRS applicable to such shares.

It is not mandatory to keep separate accounting books for the joint operation or to prepare a separate financial report for it. This may be done solely for the purposes of the parties sharing the joint control. This is the way to assess the efficiency of the joint operation.

_The Cooperatives for the Pooled Use of Agricultural Equipment_ (Cooperatives d’utilisation en commun du materiel agricole - CUMA) are individual entities and their efficient functioning depends mostly on the terms and conditions agreed in their Statutes. The characteristic thing about them is the fact that the contributions are proportionate to the type and duration of the work with a said machine or other equipment and their specialization consists in the joint use of a strictly specified type of machinery. These cooperatives in the Western European countries enjoy a number of preferences – for the purchase of farming machinery they get significant discounts from the price of the new equipment;
they can use long-term low-interest loans, etc. The cooperatives keep their own accountancy and they prepare their financial statements like any other entity.

The cooperatives for joint use of agricultural equipment are examples of individual entity under IFRS 11 Joint Arrangements. If the parties to the joint arrangement have rights on its assets or liabilities, then it is a joint operation. In cases where the parties have rights on the nett assets of the joint venture/operation, then it is called a joint venture.

Classification of the cooperatives as joint operations or joint ventures involves consideration of:

- the legal form of the individual entity
- the terms and conditions of the contractual arrangement
- other facts and circumstances

The legal form matters for the assessment of the type of the joint arrangement. Where the legal form implies that the assets and liabilities held by the arrangement formed are its ownership, and not ownership of the separate parties to that, then we have a joint venture. The formation of an individual entity, the legal form of which provides that its assets and liabilities should remain ownership of its contributors, implies a joint operation.

The terms and conditions of the contractual agreement also matter for the classification of the cooperative for joint use of agricultural equipment. That provides for issues such as:

- the objective, the activities and the duration of the joint arrangement;
- the appointment of the members of the Board of Directors and an equivalent management body of the joint arrangement;
- the process of decisions taking – the matters that require decisions by the parties, the voting rights of the parties and the required level of support for those matters;
- the share contributions or other contributions required from the parties;
- the division between the parties of the assets, liabilities, revenue, expenses, the profit or the loss relating to the joint arrangement.

In most cases the rights and the obligations in the contractual agreement match those attributed to the parties by virtue of their legal form. Practice, however, knows also some cases where the parties use the contractual agreement for the purpose of converting or amending the rights and obligations provided by their legal form.

For example, four enterprises operating in the agriculture sector form a cooperative for the joint use of agricultural equipment, which is structured as an individual entity. Each party holds 25% share in the estate of the new arrangement. The registration allows for the separation of the arrangement from its founders. The assets and liabilities held by the registered arrangement are its ownership. The consideration of the legal form returns that we have a joint venture. The contractual agreement of the parties, however, stipulates that each party holds a share in the assets and is responsible for a set share of the liabilities of the registered arrangement. This changes the characteristics of the association and leads to the identification of the newly formed arrangement as a joint operation.

Besides the legal form and the contractual agreement, some other facts and circumstances should also be taken into consideration for the classification of the cooperatives.

For example, four enterprises form a joint arrangement and they register that as an individual entity. Each one of the parties holds 25% share in the estate. The objective of the newly registered arrangement is to produce seeds for the production processes of each one of the parties. The analysis of the legal form shows that the assets and liabilities of the arrangement formed are its own ownership. The contractual agreement between the parties does not stipulate that they have any rights on the assets or responsibilities for the liabilities of the new arrangement. Therefore, the legal form and the contractual agreement show that we have a joint venture.
However, there are some facts and circumstances that should also be taken into account:

- the parties have agreed to purchase all the products generated by the arrangement in proportions matching their shares in the joint arrangement. It may not sell any part of its production unless approved by the four partners.

- The price of the products which the partners sell is defined by them at a level to cover the production costs and the administration costs of the joint arrangement.

These facts and circumstances show that the arrangement is a joint operation. Any change of the contractual agreement such as allowing the arrangement formed to sell its products to third parties, implies a new classification of the cooperative as a joint venture.

If we have a joint operation:

- the partner exercising joint control (joint operator) accounts for his share in accordance with the provisions of paragraph 20-22 of IFRS11 Joint Arrangements;

- the partner who does share the joint control, but holds rights on the assets and responsibilities for the liabilities, also accounts for his share in accordance with the provisions of paragraph 20-22 of IFRS11 Joint Arrangements;

- the partner who does share the joint control, and holds no rights on the assets or responsibilities for the liabilities, accounts for his share in accordance with the provisions of the IFRS applicable for such share.

If we have a joint venture:

- the partner exercising joint control (joint venturer) recognises his share as an investment. That investment should be accounted for by using the equity method in IAS 28 Investments in associates and joint ventures.

- the partner who does share the joint control, accounts for his share in the arrangement in accordance with IFRS 9 Financial Instruments.

CONCLUSION

The associations for joint use of the machine-tractor fleet in agriculture are joint arrangements according to IFRS 11 Joint Arrangements. Those can be classified either as joint operations or joint ventures.

Those associations where no individual entity is formed should be accounted for as joint operations. Those associations where an individual entity is formed may be classified either as joint operations or as joint ventures. The choice should be based on the legal form, the terms and conditions of the contractual agreement, as well as after taking into account some other facts and circumstances. The change of any one of those may lead to the re-qualification of the association.

The partners in the associations for joint use of the machine-tractor fleet in agriculture recognise their share in the their individual reports according to the type of the joint arrangement - a joint operation or a joint venture. The fact whether the particular party in the joint arrangement exercises or not any joint control is important for the accounting.

REFERENCES

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