

SOME ASPECTS CONCERNING THE ACCOUNTING OF THE SUBSIDIES AWARDED TO AGRICULTURAL ENTITIES

Tatiana ȘEVCIUC, Veronica PRISĂCARU

The State Agrarian University of Moldova, 44 Mircești Street, MD-2049, Chișinău, the Republic of Moldova, Phone: + 37322432815, E-mail: sevciuctatiana@mail.ru

Corresponding author: sevciuctatiana@mail.ru

Abstract

Subsidizing is the method that is argued by the followers of the free change. Anyway it is necessary as the means of orientation, adjustment and stimulation of some products and as the means of producers and consumers protection. The subsidies are given by the state in order to encourage those branches and sub-branches that are important for the state's economy. The biggest part of the budget expenses for subsidizing is given to agriculture. The subsidies are more oriented to agriculture because this branch is very important in the macroeconomic balance and in providing food security. This research aims to show some aspects concerning the accounting of the subsidies given to agricultural entities taking into account the provisions presented in NAS "Equity and liabilities" and in NAS "Accounting peculiarities in agriculture". To achieve this aim we'll expose the accounting of the subsidies related to biological fixed assets, the subsidies related to biological depreciable fixed assets. We will also examine the situations in which the subsidizing conditions don't comply with the prescribed rules.

Key words: agricultural producers, biological fixed assets, income, reimbursement, subsidy

INTRODUCTION

Subsidizing is a complex and coherent system of measures and practices used to stimulate economic growth and to protect national interests and local businesses.

According to NAS "Equity and liabilities" (2013) subsidies are assistance offered by the Government, other public authorities, national and international organizations and institutions in the form of some transfers under the condition that the entity will respect certain requirements [3].

Today the conditions and the way of granting to agricultural entities are regulated by a number of legislative and regulatory acts, their requirements are to be respected unconditionally and to be reflected properly in the accounts system. Among these acts are the following: Vineyards and wine law (2006 with the completions and amendments to the Law no. 262 of 16.11.2012), National Accounting Standard "Equity and liabilities" (2013), National Accounting Standard "Accounting peculiarities in agriculture" (2013), The Regulation on the distribution of the funds to subsidize farmers (2013), etc. [2, 3, 5, 6]

However, the existing accounting methodology doesn't reveal the peculiarities of subsidies accounting because it doesn't correlate sufficiently with the actual organic law and it requires improvement.

MATERIALS AND METHODS

The researches in the field have been performed on the basis of the generalization of the problems, difficulties and uncertainties that appear when highlighting the economic transactions related to subsidies granting in the agricultural sector of the Republic of Moldova. The research pays special attention to the subsidies related to the assets that include the stimulation of the investments in the establishment and maintenance of perennial plantations of vineyards, orchards, fruit shrubs, wine and fruit nursery including nuts using modern technologies before putting them to service, agricultural machines and equipment, irrigation systems, frost and hail equipment, technological renovation of livestock farms, etc.

We mostly used the monographic method of describing the accounting objects also

applying elements of comparison, induction and deduction.

RESULTS AND DISCUSSIONS

In the Republic of Moldova according to "The Regulation on the distribution of the funds to subsidize farmers"(2013) the distribution of the funds to subsidize farmers is carried out to support the following actions: to stimulate the lending to farmers by financial institutions, to stimulate production risk insurance in agriculture; to stimulate the investments in clearing perennial plantations that are subject to scrapping, in the establishment of perennial plantations and the promotion of wine production; to stimulate the investments in vegetable production on the protected land (winter greenhouses, solariums, tunnels); to stimulate the investments in the purchase of agricultural machinery and equipment, irrigation system equipment, frost and hail equipment; to stimulate the investments in technological renovation of livestock farms; to stimulate the purchase of animals for breeding and their genetic background maintenance; to stimulate the investments in post harvest and processing infrastructure; to stimulate land consolidation; to stimulate land irrigation (2013).By allocating fund resources the following objectives are to be obtained:

- 1) the increase of agricultural productivity and competitiveness;
- 2) the stimulation of the technological transfer and extension services;
- 3)the revenue increase of agricultural producers and poverty reduction;
- 4) extensive attraction of young farmers in the initiation and the development of agricultural activities in rural areas;
- 5) the efficient use of natural resources and the environment protection.

A subsidy is recognized and is evaluated according to the provisions NAS "Equity and liabilities"(2013).

An agricultural unit can benefit from the subsidies related to:

- a) the assets that include the stimulation of the investments in:
 - the establishment and maintenance of perennial plantations of vineyards, orchards,

fruit shrubs, wine and fruit nursery including nuts using modern technologies before putting them to service;

- agricultural machines and equipment, irrigation systems, frost and hail equipment;
 - technological renovation of livestock farms;
 - the purchase of animals for breeding and their genetic background maintenance;
 - post harvest and processing infrastructure development;
 - vegetable production on the protected land (winter greenhouses, solariums, tunnels).
- b) the incomes as stimulus of:
 - ecological agriculture promotion and development;
 - agricultural producers compensating energy costs for irrigation and drainage;
 - the users of plant protection products (pesticide) and fertilizers (mineral fertilizers).
 - c) partial or total pay off of the debts related to the stimulation of:
 - the lending to farmers by commercial banks, microfinance organizations and savings and loan associations;
 - risk insurance in agricultural production;
 - mandatory state social insurance, etc.

An unconditional subsidy is recognized as a profit when it becomes a debt and is accounted by increasing the debt and special purpose financing. A conditional subsidy is recognized as income when the conditions imposed by the subsidy are met.

The subsidies related to assets can be received in non-monetary form (fixed assets of biological and non-biological origin) or in monetary form. In any form the related subsidies can be received in order to create depreciable or non-depreciable assets.

The subsidies related to biological fixed assets [4] are accounted as incomes based on the principle of concordance [1] with the depreciation amount accounted as expenses in one and the same time period during the life of the asset. So, the entity accounts:

- the transfer of the expected long-term revenues conditioned by the subsidies into the expected current revenues by decreasing the expected long-term revenues and increasing the expected current revenues;
- the calculation of the depreciation of the subsidized asset as costs increase and the

increase of the depreciation the biological fixed assets;

-the recording of current revenues coming from subsidies as the decrease of the expected current revenues and the increase of the current revenue.

The way of the accounting of the subsidy related to biological fixed assets (2013) is presented in the following critical examples:

Example 1. In April 201N an entity established an orchard of apple grafted on vegetable rootstock of medium vigor with the density of 700 trees/ hectare on the surface of 8 hectare. The cost of orchard establishment and its nursing in the first year constitutes 161600 leis. In August 201N the agricultural entity receives the subsidy of 120000 leis. In December 201N+6 the orchard is received in service, the costs of trees nursing during the period 201N+1 - 201N+6 constitute 362500 leis. In the years 201N +5 and 201N+6 before receiving in service apples were harvested, they were evaluated at the net realizable value of 34100 leis. The exploitation period of the orchard was 25 years, the way of depreciation calculation- linear, the residual value-8500 leis.

According to the example's data the entity will account:

- 201N-201N+6: the recording of the costs related to the establishment and the nursing of the orchard equal to 524100 leis (161600 leis+362500 leis) as the increase of tangible assets under execution and the decrease of the stocks, indirect production costs, costs of ancillary activities, the increase of current liabilities and of the depreciation of fixed assets;

- August 201N: the receipt of the subsidy of 120000 leis by increasing the cash, receivables and special purpose financing;

- 201N+5-201N+6: entries registration of the obtained crop from young trees - 34100 leis as the products increase and the decrease of tangible assets under execution;

- December 201N+6: entries registration at the category bearing apple orchard equal to 490000 leis (524100 leis -34100 leis) as the increase of biological fixed assets and the decrease of tangible assets under execution;

- December 201N+6: the transfer of special purpose financing and receivables in the expected long-term revenues equal to 120000 leis as the decrease of special purpose financing and receivables and the increase of the expected long-term revenues;

- December 31 201N+6: the transfer of the share of the expected long-term revenue equal to 4800 leis (120000 leis ÷ 25 years) in the expected current revenue by the decrease of the expected long-term revenue and the increase of the expected current revenue;

- 201N+7: the calculation of the orchard's depreciation from the subsidized amount at 4800 leis (120000 leis ÷ 25 years), unsubsidized 14460 leis [(490000 leis - 120000 leis -8500 leis)÷ 25 years] as the increase of current expenses and of the costs of orchard nursing at the respecting amounts and of the depreciation of biological fixed assets at the total amount -19260 leis [(490000 leis -8500 leis)÷ 25 years];

- 201N+7: the registration of the revenue which comes from subsidy at the amount of 4800 leis as the decrease of expected current revenue and the increase of other current revenues.

The subsidies related to biological non-depreciable assets (animals for breeding: primiparous cows, junks older than 12 months, boars and gilts aged 6-8 months, rams and he-goats, sheep and she-goats aged 6-20 months) are accounted as uniform income during the period occurred from subsidization without taking in consideration the correspondence principle between the expenses and the revenues.

Example 2. On 1.04.201N an entity purchases 5 primiparous cows for breeding with the live weight of 2050 kg with the purchase value of 123000 leis, the cost of transports, accompanying and food during transportation constitute 2000 leis. On 1.07.201N the entity receives a subsidy at the amount of 82000 leis (2050 kg × 40 leis). A subsidy beneficiary has no right to alienate the grant subject for 4 years. Let's accept that the entity has met all the subsidization conditions. According to the data of the example the subsidy beneficiary will account:

- 1.04.201N. The entry registration of primiparous cows at the amount of 125000 lei (123000+2000) as the increase of biological fixed assets, the decrease of stocks and the increase of current liabilities;
- 1.07.201N. The receipt of the subsidy means at the amount of 82000 leis as the increase of the numbers and special purpose financing and receivables;
- 1.07.201N. Subsidy recognition as expected revenues by decreasing special purpose financing and receivables to 82000 leis, the increase of the expected current revenues to 10250 leis ($82000 \text{ leis} \div 48 \text{ months} \times 6$) and the increase of the expected long-term revenues to 71750 leis, where 48- the number of months in 4 years;
- 1.07.201N-31.12.201N. The transfer of the expected current revenue to current revenue at the amount of 10250 leis as the decrease of the expected current revenue and the increase of the current revenue;
- 31.12.201N. The transfer of the share of the expected long-term revenue at the amount of 20500 leis ($82000 \text{ leis} \div 48 \text{ months} \times 12$) to the expected current revenue.

In the year 201N+1 the amount of 20500 leis will be recognized as the current income of the business period.

The subsidies related to revenues are accounted as revenues on the basis of the correspondence to the costs size (expenses) incurred during the previous, current or future periods. So, the entity will account:

- a) the receipt of the subsidy cash by increasing the cash and the expected current revenues;
- b) the recognition of the revenue in the amount of the costs (expenses) partially or totally subsidized and incurred as the decrease of the expected current revenues and the increase of the current revenues;
- c) the recognition of the expenses related to subsidization by increasing the expenses and the decrease of the costs.

Example 3. In July 201N an entity consumed electricity to pump water from the centralized irrigation systems at the amount of 22000 leis excluding VAT to grow vegetable crops. In September 201N the entity receives a subsidy

amounting to 50% of the cost of the energy consumed - 11000 leis.

According to the data of the example the entity will account:

- July 201N. The registration of the electricity to the irrigation costs of the vegetable crops amounting to 22000 leis as the increase of the basic costs and of the current liabilities;
- September 201N. The receipt of the granted subsidy amounting to 11000 leis as the cash increase and the increase of the expected current revenues;
- September 201N. The recognition of the income from the subsidy as the decrease of the expected current revenues and the increase of the current revenues to 11000 leis;
- September 201N. The registration of the expenses related to the subsidy to 11000 leis as the increase of the current expenses and the decrease of the basic activity costs.

The subsidies related to partial or total payment of some debts are accounted as revenues in the amount prescribed by law in accordance with the amount of the expenses related to the subsidies. These subsidies are accounted as the decrease of the current liabilities and the increase of the current revenues. Simultaneously, the expenses related to the subsidy are also recognized as the increase of the current expenses and the decrease of the basic activity costs.

Example 4. In 201N an entity ensured multiannual plantations and the expected harvest of vegetables for which insurance premiums are to be paid in the amount of 25000 leis. According to the law the entity pays 40% of the insurance premiums from its own means and 60% of the insurance premiums are paid by the state.

According to the data of the example the entity will account:

- 1.The calculation of the insurance premiums in the amount of 25000 leis as the increase of the basic activity costs and of the current liabilities;
- 2.The payment of insurance premiums amounting to 10000 leis ($25000 \text{ leis} \times 0,4$) as the decrease of the cash and the current liabilities;
- 3.Partial subsidization of the liabilities regarding the insurance premiums amounting

to 15000 leis (25000 leis-10000 leis) as the decrease of the liabilities related to the insurance and the increase of the current revenues;

4. The recognition of the expenses related to the subsidy for the insurance premiums amounting to 15000 leis as the increase of other current expenses and the decrease of the basic activity costs.

The farmers, who alienated (sold, donated, exchanged, etc.), sacrificed the animals or grubbed the perennial plants by the established deadline, must repay the amount of the subsidy except the force majeure situations (floods, land slides, frost), anomalies confirmed in documents as established. The repayment of a subvention related to an asset is recorded as the decrease of the balance of the expected revenue with the repayable amount. The difference between the subsidy amount which is repaid and the expected revenues balance is immediately recognized as expenses. So, the repayment of a subsidy will be accounted as the decrease of the expected revenues, the increase of the current expenses and the cash decrease.

Example 5. Using the data from the previous example let's suppose that the entity didn't meet the established conditions (sold 3 cows) and on 1.08.201N+3 it totally repays the subsidy amounting to 82000 leis. On this date the balance of the expected long-term revenues constitutes 11250 leis and the balance of the expected current revenues – 8541,70 leis.

According to the data of the example the subsidy repayment will be accounted as:

- the decrease of the expected long-term revenues-11250 leis;
- the decrease of the expected current revenues-8541,70 leis;
- the increase of the current liabilities-62208,30 leis;
- the decrease of the cash to the total amount-82000 leis.

The repayment of a subsidy related to revenues is accounted as the decrease of the expected current revenues. The difference that overcomes this postponed credit or in its absence- the subsidy amount that is to be

repaid is immediately recognized as current expenses.

Example 6. In March 201N an entity purchases fertilizers, ammoniac powder-8000 kg amounting to 64000 leis, including VAT-10667 leis and 6000 kg of mineral fertilizers „Nitrofosca” amounting to 84000 leis, including VAT – 14000 leis. In May the entity receives a subsidy in the amount of 10% of the fertilizers value without VAT which is 12333 leis [(64000 leis -10667 leis)+(84000 leis-14000 leis)] $\times 0,1$. In 201N the entity used for phytotechnical crops ammoniac ponder -5000 kg amounting to 33335 leis and mineral fertilizers „Nitrofosca” – 4000 kg amounting to 46668 leis, in total 80003 leis. The stock of the unused fertilizers was sold at a higher price than it was bought.

As the entity didn't meet the subsidy conditions, the fertilizers, that were partially subsidized, were not used entirely to grow phytotechnical crops in August 201N, the granted subsidy was repaid.

According to the data from the example the entity will account:

1. The entry recording of the purchased fertilizers as the stocks increase without VAT amounting to 123333 leis [(64000 leis -10667 leis)+(84000 leis -14000 leis)] and the increase of the current liability;

2. The receipt of the subsidy amounting to 12333 leis as the cash increase and the increase of the expected current revenues;

3. Fertilizers used for soil incorporation amounting to 80003 leis as the increase of the basic activities costs and the stocks decrease;

4. The recognition of the current revenue that comes from the subsidy amounting to 8000,30 leis (80003 leis $\times 0,1$) as the decrease of the expected current revenue and the increase of the current revenue;

5. The recognition of the expenses related to the subsidy amounting to 8000,30 leis by increasing current expenses and decreasing the basic activities costs;

6. August 201N. The subsidy repayment amounting to 12333 leis as:

- the decrease of the expected current revenues 4332,70 leis (12333 leis -8000,30 leis);

- the increase of the current expenses - 8000,30 leis;
- the cash decrease - 12333 leis.

When putting in operation a vineyard (Vine and Wine Law, 2006 with the completions and amendments to the Law no. 262 of 16.11.2012), irrigation systems, frost and hail installations (according to the documents), the share of the expected long-term revenue related to the subsidy attributable to the first year of operation, determined by the depreciation method, is transferred to the expected current revenues as the decrease of the expected long-term revenues and the increase of the expected current revenues. The revenues and the expenses related to the subsidy, previously recorded, are accounted as current revenues and current expenses at one and the same amount in one and the same reporting period the following way:

- 1) revenue- as the decrease of the expected current revenues and the increase of the current revenues;
- 2) expenses- as the simultaneous increase of the current expenses and the depreciation of biological fixed assets and the depreciation of tangible fixed assets (The regulation on receiving and recording revenues in the first year of perennial plantations vegetation, 1995.).

Example 7. In April 201X an entity planted the vines, table grapes, on a surface of 10 hectares. On the 1st of August 201X the entity receives a subsidy of 250000 leis (10 hectares \times 25000 leis). On the 1st of July 201X+2 the entity receives in service the espalier installed at the price of 346500 leis. The vineyard is transferred to the category of fruit bearing on the 31st of December 201X+4 at the entry cost of 635700 leis. The entity establishes the useful life of the vineyard of 20 years and of the espalier-22,5 years, the residual value of the vine equals to zero, the residual value of the espalier is 69300 leis, and the depreciable amount is 277200 leis (346500 leis-69300 leis). The entity specified in its accounting politics the linear method of calculation of the vine and espalier's depreciation, beginning with the month when these assets were put in operation. The entity doesn't have frost and hail installations.

According to the data from the example the entity accounts:

- In the period 201X-201X+4: the recording of the vine establishment, growing and caring costs at 635700 leis - as the increase of the biological fixed assets in progress, the increase of the depreciation of tangible and intangible assets, the increase of current liabilities and the decrease of stocks, auxiliary activities costs and indirect production costs;

- On the 1st of July 201X+2:

the entry record of the espalier at the price of 346500 leis - as the increase of tangible fixed assets and the decrease of the tangible assets in progress;

the calculation of the monthly depreciation of the espalier amounting to 1026,67 leis $[(277200 \text{ leis} \div 22,5 \text{ years}) \div 12 \text{ months}]$ - as the increase of the biological fixed assets in progress and of the tangible assets depreciation.

Totally, before the vine is put in exploitation the amount of the espalier's depreciation, included in its cost, constitutes 30800 leis (1026,67 leis \times 30 months), the not calculated depreciable value of the espalier at the moment, when the vine is transferred to the fruit bearing category, is of 246200 leis (277200 leis - 30800 leis).

- On the 1st of August 201X+2:

the receipt of the subsidy amounting to 250000 leis - as the increase of the cash and of the expected long-term revenues;

- On 31.12.201X+4:

the recording of the vine in exploitation amounting to 635700 leis - as the increase of the biological fixed assets and the decrease of the biological fixed assets in progress.

There are determined:

the depreciable value of the vine and of the espalier amounting to 881900 leis (635700 leis+246200 leis);

the subsidy's share in the depreciable value of the vine and of the espalier (the law doesn't provide separate subsidization of these assets) - 0,28348 (250000 leis \div 881900 leis);

the depreciable value of the vine:

- unsubsidized - 455492 leis [635700 leis - (635700 leis \times 0,28348)];

- subsidized - 180209 leis (635700 leis \times 0,28348).

the depreciable value of the espalier:

- unsubsidized -176407 leis [246200 leis - (246200 leis \times 0,28348)];
- subsidized – 69793 leis (246200 leis - 0,28348).

the transfer of the expected long-term revenue into the expected current revenue in the amount of 12500,04 leis (9010,44 leis + 3489,60 leis) – as the decrease of the expected long-term revenue and the increase of the expected current revenue;

the recognition of the income from the subsidy in the amount of 1071,67 leis (750,87 leis+290,80 leis) – as the decrease of the expected current revenue and the increase of the current revenue.

the calculation of the monthly depreciation of:

- the vine– 2648,75 leis (635700 leis \div 20 years \div 12 months), including from the unsubsidized value – 1897,88 leis (455492 leis \div 20 years \div 12 months), from the subsidized value - 750,87 leis (180208 leis \div 20 years \div 12 months) - as the simultaneous increase of the basic activities costs - to 1897,88 leis, of the current expenses - to 750,87 leis and of the depreciation of the biological fixed assets - 2648,75 leis;
- the espalier - 1025,83 leis (246200 leis \div 20 years \div 12 months), including from the unsubsidized value – 735,03 leis (176407 leis \div 20 years \div 12 months), from the subsidized value - 290,80 leis (69793 leis \div 20 years \div 12 months) – as the simultaneous increase of the basic activities costs - to 735,03 leis, of the current expenses - 290,80 leis and of the depreciation of the tangible assets - to 1025,83 leis.

CONCLUSIONS

An unconditioned subsidy is recognized as income when it becomes a debt and it is accounted by increasing the debt and the special purpose financing. A conditioned subsidy is recognized as income when the conditions of subsidy granting are met.

The subsidies related to assets can be received in non-monetary form (biological and non-biological fixed assets) or in monetary form. Regardless of the form, the subsidies related

to assets can be received in order to create depreciable and non-depreciable assets.

The subsidies related to biological fixed assets are accounted as incomes based on the compliance with the principle of consistency of the amount of depreciation calculated as expenses during one and the same business period over the useful life of the asset.

The repayment of a subsidy related to revenues is accounted as the decrease of the expected current revenues. The difference that overcomes this postponed credit or in its absence- the amount of the subsidy, that is repaid, is immediately recognized as current expenses.

REFERENCES

- [1]The Accounting Law no. 113-XVI of 27 April 2007. In: The Official Monitor of the Republic of Moldova no. 90-93 art. no: 399 (with the following completions and amendments).
- [2]Vine and Wine Law no. 57-XVI of 10 March 2006 with the completions and amendments to the Law no. 262 of 16.11.2012. In: The Official Monitor of the Republic of Moldova no. 75-78 art. no: 314.
- [3]National Accounting Standard „Equity and liabilities”. In: The Official Monitor of the Republic of Moldova. 2013, no. 233-237 (special edition).
- [4]National Accounting Standard „Accounting peculiarities in agriculture”. In: The Official Monitor of the Republic of Moldova. 2013, no. 233-237 (special edition).
- [5]The regulation on receiving and recording revenues in the first year of perennial plantations vegetation of 20 October 1995. In: The Official Monitor of the Republic of Moldova, no. 073.
- [6]The regulation on the distribution of the fund to subsidize farmers of 27.02.2013. In: The Official Monitor of the Republic of Moldova , no. 41, art. no. 184

