FINANCING AGRICULTURAL COMPANIES FROM EU FUNDS -PROCEDURAL, FINANCIAL AND ACCOUNTING ASPECTS

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Abstract: *Being a reality of the current economy, the funding from EU funds is crucial for the support of the activity of many companies and for the increase in their performance. The article aims at highlighting the main types of funds dedicated to agricultural activities, the procedure of obtaining them and the peculiarities of recording the funds obtained for funding the activity of agricultural companies in their accounting records.*

Key words*: EU funds, accounting, agricultural activities.*

INTRODUCTION

As shown in the project on the "Strategy for the medium- and long-term development of the agri-food sector. 2020-2030 Period" prepared by the Ministry of Agriculture and Rural Development [14], Romania is one of the countries with the most favourable pedoclimatic conditions for obtaining a good-quality agricultural production in significant quantity, able to cover an important segment of the domestic demand for food products. Contrary to the considerable potential characterising the Romanian agriculture, the yields in this sector remain poor, indicating a poor usage of production factors, significantly below the values deemed optimal.

After Romania's integration in the European Union, its agricultural and rural development economy entered a new stage, and required a quick adaptation in order to be able to get integrated on the EU internal market and to fully adopt the Common Agricultural Policy (CAP). Thus, the adhesion to the UE is probably viewed as the strongest pressure factor for the quick reform of the Romanian agriculture and rural economy. The European agriculture model is based on a competitive sector, market-oriented, and also fulfils other public objectives, for example, carrying out agricultural activities in line with the protection of the environment, or increasing the living standard of the population in the rural environment.

One of the measures of the European Union for the member states, meant to support, help recover, stimulate and increase the profitability of the business of natural persons/legal entities operating in agriculture was European funding. In order to access European funds, the applicant must meet eligibility conditions specific to each major area if intervention and to each proposal and project application.

MATERIALS AND METHODS

It is considered that the accounting research environment is dynamic due to the continuous development of the professional standards (including the accounting and audit ones), to the specificity of the business globalization, to the use of new information and communication technologies, and respectively to the proliferation of the business models/methods, [1, p. 61].

In this article, we achieve the objective of performing a financial and accounting research, more specifically, we carry out a systematic investigation, using professional judgement, in relation to a very topical problem, i.e. the access to and the accounting of European funds by agricultural companies. The accounting research is focused on improving communication among the users of accounting information and the society, with the purpose of continuously improving accounting practice. This article is prepared as a theoretic accounting research and is based on quality research methods, more specifically, the research of the practice in this field, and case study research.

The main objectives of the study are:

- a brief analysis of the problems in the agricultural sector in Romania and of the European funding needs;
- Presenting the main types of European funds that finance agricultural companies' activities;
- Highlighting the legal status of agricultural undertakings;
- Explaining notions of eligibility of expenses;
- Highlighting certain financial and accounting aspects related to the European fund accessing mechanism.

RESEARCH RESULTS

As shown in specialised materials [2, p.357], structural and cohesion funds are part of the Community structural policy, which aims at reducing disparities between the levels of development of different regions (structural funds), as well as those of the European Union member states (the cohesion fund) and thus, promoting economic and social cohesion. The structural funds of the European Union are managed by the European Commission and are dedicated to financing structural aid measures at Community level, with the purpose of promoting regions with development delays, to reconverting areas that are in an industrial decline, combating long-term unemployment, helping the professional insertion of youth and promoting rural development.

EU finances a wide range of projects and programmes covering areas such as [11]:

- Regional and urban development
- Employment and social inclusion
- **agriculture and rural development**
- **maritime and fisheries policies**
- research and innovation
- humanitarian aid.

The financing is managed based on strict rules, in order to guarantee the fact that a rigorous control is applied to how funds are used and that the money is spent transparently and responsibly. As shown in the above-mentioned bibliographic source, more than 76% of the EU budget is managed in partnership with the national and regional authorities within a "shared management system", mainly through **five main funds,** the structural and investment funds); together, these tools contribute to the implementation of the Europe 2020 strategy:

- European Regional Development Fund (ERDF) – regional and urban development
- European Social Fund (ESF) – social inclusion and good governance
- Cohesion fund – economic convergence of less developed regions
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

In relation to agriculture and rural development, after being integrated in the European Union, Romania follows the principles of the Common Agricultural Policy (CAP), which is a set of rules and measures aiming mainly: market stabilization, providing the consumer with supplies at reasonable prices, increasing productivity, safeguarding supplies, ensuring a fair standard of living of the farming population [8].

As shown in the above-mentioned information source, in compliance with Council Regulation no. 1290/2005 on the financing of the common agricultural policy, two European funds were created for agriculture:

- EAGF - the European Agricultural Guarantee Fund - intervenes to support agricultural markets;
- EAFRD - European Agricultural Fund for Rural Development – finances development programmes in the rural environment.

From 1st January 2007, the Agency for Payments and Intervention in Agriculture (APIA), operating under the Ministry of Agriculture, Forests and Rural Development, uses European funds for the implementation of support measures financed from the European Agricultural Guarantee Fund (EAGF). Subsidies are granted as direct payments per hectare managed by the Integrated Administration and Control System (IACS) and within market measures for the implementation of commercial mechanisms, according to the Common Agricultural Policy (CAP) [9].

EAFRD was implemented in the first financial programming period (2007 – 2013) through the 2007 – 2013 National Programme for Rural Development (NPRD), while in the second financial programming period (2014 – 2020), it is implemented through the 2014 – 2020 National Programme for Rural Development (NPRD). The Agency for Financing Rural Investments (AFIR) is the institution that ensures the technical and financial implementation of 2014-2020 PNDR.

In order to clarify the entire absorption mechanism, the Government approved the methodological norms for the financial management of European funds, which provide the financial flows and how these financial flows are presented, how amounts are granted at the level of the implementation units, how payment applications are prepared. At the same time, they mention how expenses incurred at the level of operational programmes are committed, settled and authorised, and how projects in partnership are carried out [12].

The Managing Authority/the Intermediate Body ensures the monitoring and control for the implementation of the project, and the beneficiary has the obligation to observe the provisions laid down in this respect in the annex to the financing agreement. The project is monitored based on physical, financial, and performance indicators set in the grant application.

The cycle of a project, irrespective of its type, has, in general, six stages: the identification, the preparation, the formulation, the financing, the implementation and the assessment [5, p.25]. The completion of each stage depends on the completion of the previous one, thus implying their interdependence. The success of the project depends, among others, on the appropriate preparation of the budget (the estimated amount representing its value) and all material and human resources, as well as resources of other kind that are necessary must be taken into account, as well as the price change as a result of inflation. In this respect, the co-financing, or the percentage in the total eligible expenses related to the project that will be incurred by the applicant, respectively, must also be taken into account. The financial officer has an essential role in the documented, up to date tracking of payments (including the verification of the correctness of the documents) and in forecasting future costs of the project.

Periodically, the beneficiary requests the reimbursement of funds by an application, accompanied by a file that includes relevant supporting documents, so that, following the verification, the Management Authority can authorise the payment of the requested eligible expenditure. **The eligible expenditure** incurred in compliance with the contracts for works performed/services provided in the period when the reimbursement is requested are justified with relevant documents (invoices, payment orders, receipts, etc.) and are mentioned in the "Report on eligible expenditure" incurred in the period in question for which the reimbursement is requested through the application, together with the supporting documents.

In order to be eligible, expenditure must fulfil, at the same time, the following conditions [7]:

- ✓ To be effectively paid by the beneficiary as at the day when the financing agreement comes into force or from the date mentioned in the financing agreement;
- ✓ To be provided in the budget of the project;

✓ To be incompliance with the principles of a rigorous financial management, given the efficient use of funds and an optimal cost-efficiency ratio;

✓ To be recorded in the Beneficiary's/Partner's/Partners' accounting

✓ To be identifiable, verifiable, and to be proven by invoices, in compliance with the provisions of the national legislation, or by other accounting documents with probative value;

✓ Not to have been the object of other public financing;

✓ To be in compliance with the provisions of the national and Community legislations and with the provisions of the financing agreement;

✓ To be mentioned in the eligible expenditure list provided in the Applicant's Guide – Specific Conditions for each project proposal application.

Oher expenditure, for example : the value added tax deductible in compliance with the law, the interest and other credit-related fees, collateral expenditure occurred in a lease contract, the purchase of second-hand equipment, fines, penalties and legal expenses, costs related to the operation of investment objectives, etc.. The management authorities set eligible expenditure lists taking into account the operational programme managed.

Depending on the legal status of agricultural undertakings, we can distinguish the following types [13]:

- **Without legal personality**

a) **individual agricultural undertaking** - the most common type or agricultural undertaking in the rural environment which usually comprises the members of a family or family associations, which share agricultural surfaces and/or livestock. Such an agricultural undertaking has no legal form of organization, and the agricultural production obtained is usually dedicated mainly to own consumption and only in certain cases to sale.

b) **self-employed person, sole proprietorship, family business** (must have a taxpayer identification number/fiscal code and must be registered with the Trade Register). According to Government Emergency Ordinance no. 44/ 2008, the following are included:

• the self-employed person performing any type of business, provided by the law, using mainly his/her own labour;

• the sole proprietorship, which is a business entity without legal personality, organized by an individual entrepreneur;

• the family business, which is a business entity without legal personality, organized by an individual entrepreneur together with his/her family.

- **With legal personality**

a) **state-owned company** – an economic operator, a legal entity whose assets whose property consists of assets belonging fully or mostly to the public domain of national/local interest or to the private property of the state, which performs agricultural activities.

b) **agricultural company/association** – has legal personality, is established in compliance with Law no. 36/ 1991, has variable capital, and its core scope is: using land, agricultural machinery and equipment, breeding livestock and making agricultural investments. The agricultural company of this type has legal personality, but does not have a commercial nature.

c) **trading company with majority private/publicly-owned capital established in compliance with Law no. 31/ 1990,** has legal personality, manages a majority private/publicly-owned capital and carries out core or secondary agricultural activities. These trading companies can be: a general partnership, a limited partnership, a joint stock company, a partnership limited by shares – a limited liability company.

e) **a research institute/station, an educational institution with agricultural profile**

f) **a town hall and other public institutions**

g) **a cooperative unit** – an agricultural undertaking with legal personality, established under Law no. 566/ 2004, and carries out agricultural activities among others.

h) **other types** (a foundation, a religious settlement, a school, etc.) – the agricultural undertakings with legal personality such as monasteries, churches, schools with non-agricultural profile or other non-governmental organizations (foundations, non-profit associations, etc.), but only if they carry out agricultural activities, among others.

In relation to how European funds are accounted for within agricultural entities, this material will focus on the peculiarities of these accounting operations within trading companies.

An agricultural company, beneficiary of structural funds, must have an analytical accounting of the project, using distinctive analytical accounts in order to present all operations related to its implementation, including in order to present the requirements related to the communication of the data to the Management Authority, in compliance with the legal provisions, while also ensuring the compliance with the contractual conditions. The funds received can only be used for the purpose for which they were granted [5, p.67]. The accounting of projects financed through subsidies is made distinctively, on each project, financing source, according to the contracts concluded, without preparing distinctive annual financial statements for each such project. The structural funds received and used by the entities in Romania, including by agricultural trading companies, are recorded in the accounting records as **subsidies**.

In Romania, in the case or trading companies, two different types of accounting referential are applied: companies with bonds traded on a securities market (listed) apply, from 2013, the IFRS (International Financial Reporting Standards), while companies that are not listed (unlisted) apply the accounting regulations on preparing individual annual financial statements and consolidated annual financial statements (Order of the Minister of Public Finance no. 1802/2014 as supplemented and amended). Within the IFRS, two standards make direct reference to the agricultural activity and to the accounting treatment of the subsidies: IAS 41 “Agriculture” and IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. The accounting treatment of grants is similar in the two accounting references, taking into account the initiatives at EU level for the elimination of the differences between the European directives on accounting and IFRS. I will present below a few aspects related to the accounting treatment of subsidies [6, art. 392-404]

The category of subsidies comprises subsidies afferent to assets and subsidies afferent to incomes.

- **Subsidies afferent to assets** represent grants for which the main condition is that the beneficiary entity should buy, build, or purchase frozen assets. Subsidies given for assets, including non-monetary subsidies at fair value, are recorded in the accounting records as subsidies for investments and are recognized in the balance sheet as deferred income (account 475 "Investment subsidies"). The deferred income is recorded as current income in the profit and loss account as amortization expenditure is recorded or as assets are decommissioned or assigned.
- **Subsidies afferent to incomes** include all subsidies, other than those for assets. Incomes from operational subsidies afferent to the net turnover are presented in the profit and loss account as part of the net turnover, and the other incomes from subsidies are presented in the profit and loss account as an adjustment of the expenditure for which they were granted or as income items, according to the structure provided for this purpose.

Incomes rom subsidies are recognized in compliance with the clauses underlying their granting.

In order to provide the correlation of the expenses financed from subsidies with the afferent incomes, the following steps are taken:

a) from the point of view of the profit and loss account:

- during each month, expenses are recorded depending on their nature;

-at the end of the month, subsidies afferent to the expenses incurred are recorded in incomes;

b) **from the point of view of the balance sheet:**

- the receivable from subsidies is recognised in correspondence with the incomes from subsidies, if the expenses from these subsidies were incurred, or in deferred incomes, if such expenses have not been incurred yet;

- periodically, with the application for the reimbursement of the equivalent value of the expenses incurred, or based on documents through which the due amounts are determined and approved, amounts recorded as receivables from subsidies are settled.

Subsidies are recognized, systematically, as incomes of the periods corresponding to the related expenses these subsidies will compensate. If in a certain period, subsidies are received corresponding to expenses that have not been incurred yet, the subsidies received are not incomes of the respective current period.

The reimbursement of a subsidy related to an asset is recorded by deducting the reimbursable amount from the balance of the deferred income. The reimbursement of a subsidy corresponding to the incomes is made by reducing deferred incomes, if the case may be, or in their absence, in the expenses. If the reimbursed amount exceeds the deferred income or if there is no such income, the excess, or the fill value reimbursed, respectively, is immediately recognized as an expenditure.

Example:

The trading company Alfa S. A., which carries out agricultural activities, submits a project in order to receive European funds to purchase agricultural equipment declared eligible and approved (February N). The value of the funds approved is 500,000 RON. The negotiated value of the agricultural equipment is 750,000 RON, 20% VAT. Its own contribution is 250,000 RON. The advance paid is 150,000 RON plus 20% VAT (March 2015). The agricultural equipment is paid in April and commissioned in the same month. The depreciation period is 5 years, by the straight-line. In June, 250,000 RON is received by bank transfer from the European funds approved. 50% of the net debt is paid to the supplier of frozen assets. In August, 250,000 RON is received from the European funds approved. The remaining debt is paid to the supplier by bank transfer.

- Recoding the rights to receive the European funds approved (February N):

4452. Non-repayable loans in the form of grants	=	4752. Non-repayable loans in the form of investment subsidies	500,000 RON

- The advance payment by bank transfer is recorded (March N) :

%	=	404 Suppliers of non-current assets	180,000 RON
4093. Advance payments for non-current assets			150,000 RON
4426. Input VAT			30,000 RON

404 Suppliers of non-current assets	=	5121. Cash at bank in RON	180,000 RON

- Recording the acceptance of the agricultural equipment (April N):

%	=	404 Suppliers of non-current assets	900,000 RON
2131.1 Plant and machinery. EU funds			750,000 RON
4426. Input VAT			150,000 RON

- Recording the regularization of the advance payment made in March (April N):

%	=	404. Suppliers of non-current assets	- 180,000 RON
4093. Advance payments for non-current assets			-150,000 RON
4426. Input VAT			- 30,000 RON

-recording the monthly depreciation of the equipment, each month, from May, for 60 months (monthly depreciation= 750,000: 60 months= 12,500 RON)

6811. Depreciation of non-current assets	=	2813. Depreciation of plant and machinery	12,500 RON

- recording the resumption of the funds in incomes, as the financed equipment is depreciated monthly, from May, for 60 months (500,000: 60 months = 8333.33 RON):

4752. Non-repayable loans in the form of investment subsidies	=	7584. Amortisation of investment subsidies	8333,33 RON

- recording the reception into the bank account of the European funds (June N):

5121. Cash at bank in RON	=	4452. Non-repayable loans in the form of grants	250,000 RON

- recording the payment of 50% of the net debt, to the supplier of non-current assets by bank transfer(720,000 RON: 2=360,000 RON), in June N

404 Suppliers of non-current assets	=	5121. Cash at bank in RON	360,000 RON

The last two items will also be recorded in August N.

If the IFRS are applied, IAS 20 allows, in the case of subsidies related to assets, for deducting the value of the subsidy from the value of the asset purchased and the subsequent depreciation of the value resulted following the deduction of the subsidy from the original cost of the asset (the reception of the subsidy would be accounted for: 5121 =2131.1 with the amount of 500,000 RON, and the remaining value to be depreciated would be reflected in instalments in account 6811 “Depreciation of non-current assets” will be 250,000 RON).

CONCLUSIONS

According to the data from the Ministry of Finance, in the period between 2007 - 30 November 2015, Romania received from the European Union 31.94 billion eur, as European funds (including pre-adhesion ones), within the 2007-2013 financial framework.

In its turn, the country contributed the Union budget with 12.12 billion eur, which means there is a positive balance for Romania in the amount of approximately 19.82 billion eur, as structural funds. The absorption rate estimated for this period is approximately 60%-70%. The impact of the European funds on the national economy is major, and it was estimated that in the 2009-2015 period, the Gross Domestic Product (GDP) grew by more than10% (it is higher by 10% than if we had not used European funds), and the effect on investments is considerable, the European funds leading to an increase by 25% of investments. European funds also had a positive impact on employment, 3.8% more people being employed than if European funds had not been used. [10, declaration of the Ministry of European Funds, Aura Răducu, in a press conference]. The European funds attracted by agricultural enterprises have had and continue to have a major importance in the increase in competitiveness in this sector of the economy and in the improvement in the living standards in the rural environment.

I believe that the presentation of the European funds dedicated to the agricultural sector and of the accounting treatment of the European funds attracted by trading companies with agricultural profile (as subsidies) will improve the economic information system as a whole, by increasing the quality of the decisions made by information users.

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