

VOLUME, REGISTER AND VALUATION OF LONG-TERM INVESTMENTS IN DAIRY COOPERATIVES

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Abstract. In the market economy, in which dairy cooperatives operate, the financial report is not just a document prepared for accounting purposes but it also reflects the effectiveness and the sense of cooperatives functioning in the market. The analyses are aimed at determining the level of long-term investments in dairy cooperatives and methods of registering and valuating them. 10 dairy cooperatives of the highest level of long-term investments were selected advisably for the analyses. The level and structure of financial and non-financial long-term investments in the analysed dairy cooperatives were determined. Most often the dairy cooperatives hold shares in foreign entities – other dairy cooperatives or companies. Dairy cooperatives apply for the valuation of long-term investments the principles defined in the Accounting Act and in the Ordinance of the Finance Minister related to the valuation of financial fixed assets.

Key words: long-term investments, dairy cooperatives, register, valuation

INTRODUCTION

In the market economy, in which dairy cooperatives operate, the financial report is not just a document prepared for accounting purposes but it also reflects the effectiveness and the sense of cooperatives functioning in the market. Validity and reliability of information provided in the financial reports of a cooperative is indisputable. Therefore, an appropriate method of valuation of the assets is an important element of the goodwill and assessment of the activity results [Micherda 2004, p. 233].

In constantly increasing changeability and complexity of environment the preservation of duration and development of an enterprise involves the necessity of running the broadly understood investment activities. Characteristic features of such activities are deferred benefits arising from investment expenditures and often inability to relate them clearly to achieved results. Therefore, the method of registering and settling the investments and consequently their valuation has a significant influence not only on the assessment of the investment effectiveness but also on economic and financial standing of the enterprise.

A key objective of the article is to indicate the principles of registers and valuation of material investments in the financial accounting system and their consequences for the reporting description of the economic and financial standing of the enterprise [Caputa 2011, p. 113].

The investment activity of the enterprise may consist in the purchase, construction and development of tangible assets as well as the management of monetary assets and financial instruments. As a result, the following may be identified within this activity: material investments and financial investments. Such a broad conception of investment has not been adopted in the Polish balance sheet law system in which the term of investment was limited only to those assets that an entity holds for specific benefits such as: increase in the value of these assets, interest, dividends, shares in the profits or other benefits, including ones arising from business transactions. These investments cover, in particular, financial assets and those immovable properties and intangible and legal assets, which are not used by the entity, but which are held by it in order to achieve the aforementioned benefits [Caputa 2012, p. 98].

Investments – in the broad sense – mean expenditures for creating new manufacturing capacities through the construction of new facilities, development of existing ones and allocating free monies in a way that may bring increased profits in the future. Expenditures understood as such in the accounting may relate to one of two groups of assets: first, they can apply to fixed assets used by the economic entity in running its business; second, they may related to assets which the entity does not use for its own needs but holds them in connection with the expected achievement of economic benefits in virtue of just holding them, definitely other than benefits obtained from basic operations. This second group of assets in the accounting is called investment. The term of investment refers to the assets held for generating economic benefits or other, including also from business transactions. These benefits may arise from the expected increase in the value of the assets acquired, profits thereon in form of interest, dividends (profit sharing) [Messner 2007, p. 68, Rowińska 2011, p. 275].

In accordance with the Accounting Act from 1994 with later alternations the investments are understood as the assets held for generating economic benefits arising from the increase in the value of these assets, obtaining revenues thereon

in form of interest, dividends or other benefits, including also ones from business transactions, and in particular, financial assets and those immovable properties and intangible and legal assets, which are not used by the entity, but which are held by it in order to achieve the aforementioned benefits. The long-term investments include mainly:

- immovable properties – but only those which are not used by the entity to perform its basic tasks, but they are expected to generate specific benefits, e.g. land, buildings and premises for rental,
- intangible and legal assets – only those which are held for obtaining financial benefits from them in the future, e.g. as a result of an increase in their market value,
- long-term financial assets – meaning such financial assets, which will be due or intended to be sold in the period of more than 12 months as from the date of establishing, issuing or purchasing them (Table 1)¹.

The amended provision of art. 28 § 1 clause 3 – valid as from 1 January 2009 – introduces the possibility of valuation of shares in other entities and investments classified as fixed assets (other than those listed in art. 28 clause 1a) at adjusted acquisition price, if the maturity date was specified for them. In connection with the possibility of making valuations of financial assets and liabilities at adjusted acquisition price, a new § 8a was added in art. 28 defining an adjusted acquisition price. The adjusted acquisition price of financial assets and liabilities is the acquisition price (value) at which the financial asset or liability was first recognised in the account books, less any repayments of the face value, respectively adjusted for the accumulated discounted difference between its initial value and its value at the maturity date, calculated using the effective interest rate method and also decreased by any write-downs.

In the valuation of long-term investments the Ordinance of the Finance Minister on special accounting principles provides the following specific solutions in relation to the provisions of the Accounting Act, namely:

- interest on debts, including also ones to which provisions related to tax liabilities are applied, is recognised in the account books at the time of its payment but no later than on the date of the last day of the quarter in the amount of interest due as at the end of this quarter (§ 8 art. 5 of the Ordinance on special accounting principles),

¹ Stocks and shares – securities being a certificate of their holder's share in the capital and which entitle him to participate in profit distribution, bonds – securities in which an issuer confirms loans drawn from a bond holder and undertakes to return it within a specified term along with interest, loans – granted by the entity to other economic entities for the period longer than 12 months. Interest accrued on them increases the financial income of the company.



TABLE 1. Long-term financial investments

Type of investment	Description
Financial assets and liabilities admitted to trading	<ul style="list-style-type: none"> - assets acquired to obtain economic benefits from short-term changes of prices, brokerage margin or other market factors or also a short (up to 3 months) period of duration of the acquired asset - other financial assets - regardless of the reason for which it was purchased - if they represent an element of a portfolio of similar financial assets towards which it is very likely to obtain the expected economic benefits in short period (up to 3 months) - derivative financial instruments, except when the entity recognises the concluded contracts as hedging instruments
Financial assets held up to the maturity date	acquired financial assets with a fixed maturity date for repayment of face value and with a specified right to obtain a fixed or determinable amount of economic benefits (for instance interest rate) on agreed dates, on condition that the entity intends to and may maintain these assets until the maturity date
Loans granted and own receivables not intended for sale	financial assets (irrespective of their maturity date - payment) arisen as a result of providing the other party of the contract with monetary assets on condition that the concluded contract meets a definition of a financial instrument
Financial assets available for sale	<ul style="list-style-type: none"> - stocks and shares other than ones admitted to trading - acquired debt securities and receivables towards which the entity has no clearly defined intentions (maintaining until the maturity date or admitting to trading)

Source: Own study based on Ordinance of the Finance Minister related to financial assets.

- receivables and other items of assets denominated in foreign currencies no later than as at the end of the quarter according to the principles valid as at the balance sheet date.

Valuation is one of the most important areas in the accounting. It may be certified for instance by awarding by R. Mattessicha the valuation paradigm stating that the main task of the accounting is making valuation. The application of a specific parameter for measuring the value of an asset may be imposed in the accounting regulations, as well as be the responsibility of the economic entity to the extent specified in the regulations or directives of the authorities establishing these regulations [Szycha 1996, p. 83].

RESEARCH METHODS

The analyses are aimed at determining the level of long-term investments in dairy cooperatives and methods of registering and valuating them. 10 dairy cooperatives of the highest level of long-term investments were selected advisably for the analyses. The level and structure of financial and non-financial long-term investments in the analysed dairy cooperatives were determined. Following the discussions with accounting departments of the analysed cooperatives and the inspection of account books, the methodology of classifying and valuating long-term investment assets was established. The analyses excluded an issue of investments in fixed assets and focused on valuation models of long-term financial investments, which are mostly present in cooperatives.

RESULTS

Table 2 presents the level and structure of long-term investments together with their division into financial and non-financial assets. The largest amount of long-term investments of dairies is a little over PLN8 million. It is a quite low level comparing to dairy companies. This is because dairy cooperatives do not invest in intangible and legal assets (e.g. IT systems), but concentrate mainly on investments in the production process. The most common long-term financial investments in dairy cooperatives are shares and loans, and the non-financial ones cover mostly the investment immovable properties.

TABLE 2. Long-term investments in dairy cooperatives in 2012 (thousand PLN)

Cooperative No	Total long-term investments	Investment immovable properties	Long-term financial assets		
			total	shares in other entities	loans
1	8 229.2	100.0	8 000.2*	6 130.2	1 999.0
2	2 931.4	126.0	2 805.4	1 926.3	879.1
3	2 415.3	89.2	2 326.1	2 121.3	204.8
4	631.5	115.3	516.2	415.2	101.0
5	515.5	89.6	425.9	425.9	–
6	409.6	24.2	385.4	350.0	35.4
7	316.0	–	316.0	316.0	–
8	232.7	59.8	172.9	172.9	–
9	191.5	–	191.5	150.3	41.2
10	183.0	–	183.0	183.0	–

*Only in Cooperative 1 there was an investment in intangible and legal assets amounting to ca. PLN129 thousand – IT system for the analysis and the management of costs, hence the difference in the total amount and not including a given item in the table.

Source: Own study.



Most often the dairy cooperatives hold shares in foreign entities – other dairy cooperatives (the most is held by Cooperative 1 – ca. PLN6.1 million). Shares in other dairy entities dominate also in long-term financial assets of other cooperatives taken for the analyses. Moreover, the managers of dairy cooperatives grant long-term loans to their suppliers – farmers for modernisation of farms, thus, having a guarantee for the loan period that they will not lose their supplier in favour of a competitive dairy.

Valuation of long-term investments in dairy cooperatives is made at least once a year as at the balance sheet date. In the case when it is highly probably that the long-term financial assets, immovable properties or intangible and legal assets held by the entity will not generate in future any expected economic benefits, the write-downs thereof will have to be made no later than as at the end of the reporting period.

The Accounting Act indicates the possible methods of valuation:

- immovable properties and intangible and legal assets – at acquisition prices or costs of production, or adjusted value reduced by depreciation write-offs and impairment losses and also at market price or an otherwise determined fair value,
- shares and stocks in other entities and bonds – at acquisition price less any possible impairment losses or at fair value, or adjusted acquisition price – if a maturity date was specified for a given asset; shares in subordinated entities classified as fixed assets may be also valued using the equity method on condition that it is applied equally towards all subordinated entities,
- long-term loans – valued on regular basis at face value of the day on which they were established taking into account the repayments, and as at the balance sheet date they are valued in the amount of payment due, i.e. reduced by any possible write-downs, they may be also valued at adjusted acquisition price (Tables 3 and 4).

Long-term loans granted are valued on regular bases at face value of the day on which they were established. If the loans were granted to other economic entity in a foreign currency, they should be valued after being converted at the exchange rate:

- selling rate at the bank in which the entity acquired foreign currency in order to grant a loan, used by the entity for valuation of expenditures – according to method for the valuation of currencies kept on its own foreign currency account,
- at the end of the reporting period the long-term loans granted are valued in the amount of long-term instalments not yet repaid. These loans are valued and presented at face value. It should be remembered that the provisions of the loan agreement are the basis of a proper valuation of the loan as at the end of the year,

TABLE 3. Recognition of long-term investments in the account books at their purchase (receipt)

Type of investment	Valuation
Long-term investments in immovable properties and intangible and legal assets	acquisition price (principles consistent with ones provided for fixed assets)
Other long-term investments	acquisition price or purchase price, if the costs of purchase are insignificant

Source: Own study based on the Journal of Laws of 1994 No 121, Item 591.

TABLE 4. Valuation of the long-term investments as at the balance sheet date

Item	Balance sheet valuation	Results of revaluations
Long-term investments in immovable properties and intangible and legal assets	acquisition price (after taking modernisation costs into account) less depreciation write-offs and impairment losses	<ul style="list-style-type: none"> - other operating expenses - other operating income in the case of recovery of lost value (up to initial value)
	fair value	<p>recognised in the account books on mirror-like basis:</p> <ul style="list-style-type: none"> - evaluation reserve in the case of value increase above the initial value - other operating expenses in the case of value decrease below the initial value - subsequent revaluations (in the opposite direction)
Other long-term investments	acquisition price less impairment losses, fair value, value at acquisition price may be revaluated up to market value	<p>recognised in books on mirror-like basis:</p> <ul style="list-style-type: none"> - financial costs - financial income in the case of recovery of lost value (up to initial value) - revaluation reserve in the case of value increase above the initial value - financial costs in the case of value decrease below the initial value - subsequent revaluations (in the opposite direction)

Source: Own study.

- long-term loans in foreign currency are subject to valuation as at the end of financial year according to the average exchange rate for a given foreign currency was established by NBP. Any exchange differences arising from this valuation, if positive, relate to deferred revenues, and if negative to financial costs.



Example. Application of the market model to the valuation of financial fixed assets

A dairy cooperative purchased in 2009 the block of shares to be held for a long period in the amount of PLN100 thousand. As at the balance sheet date of 2010 the share value was equal to PLN90 thousand. As at the end of 2011 the value of acquired shares amounted to PLN150 thousand, and as at the balance sheet date of 2012 to PLN80 thousand. It was assumed that the accounting department of the cooperative made valuation of the long-term financial instruments according to market model (market price). Figure 1 shows the methodology of valuation of the financial fixed assets in cooperatives applying the market model.

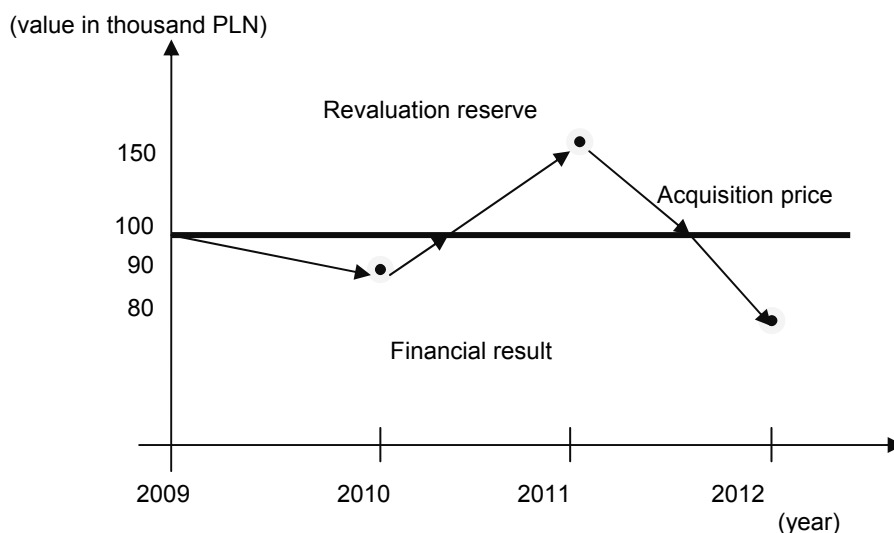


FIGURE 1. Valuation of the long-term financial investments according to market-price-based model

Source: Own study.

The results of revaluations of increase or decrease in the value of financial instruments held by the cooperative are recognised depending on whether a decrease or increase of the value was above (below) the acquisition price. If an increase or decrease was above the acquisition price of a given financial instrument, then the results of revaluations are to be recognised in full in the revaluation reserve. However, if the value decreased or increased below the acquisition price, revaluation is accounted for financial expenses or income.

CONCLUSIONS

Dairy cooperatives like the other organisational forms of enterprises apply for the valuation of long-term investments the principles defined in the Accounting Act and in the Ordinance of the Finance Minister related to the valuation of financial fixed assets. Most often the dairy cooperatives hold shares in foreign entities – other dairy cooperatives or companies. Moreover, the managers of dairy cooperatives grant long-term loans to their suppliers – farmers for modernisation of farms. Investments in immovable properties dominated among the long-term non-financial investments in dairy cooperatives.

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POZIOM, EWIDENCJA I ROZLICZANIE INWESTYCJI DŁUGOTERMINOWYCH W SPÓŁDZIELNIACH MLECZARSKICH

Abstrakt. W gospodarce rynkowej, w której funkcjonują spółdzielnie mleczarskie, sprawozdanie finansowe to nie tylko dokument sporządzany na potrzeby rachunkowości, ale także odzwierciedlenie skuteczności i celowości istnienia spółdzielni na rynku. Celem badań jest określenie poziomu inwestycji długoterminowych



w spółdzielniach mleczarskich oraz sposobów ich ewidencji i wyceny. Do analiz wybrano w sposób celowy 10 spółdzielni mleczarskich o najwyższym poziomie inwestycji długoterminowych. Określono poziom i strukturę finansowych i nie-finansowych inwestycji długoterminowych w badanych spółdzielniach. Najczęściej spółdzielnie mleczarskie posiadają udziały w obcych jednostkach – innych spółdzielniach mleczarskich lub spółkach. Spółdzielnie mleczarskie do wyceny inwestycji długoterminowych stosują zasady określone w ustawie o rachunkowości oraz rozporządzeniu Ministra Finansów dotyczącym wyceny finansowych aktywów trwałych.

Słowa kluczowe: inwestycje długoterminowe, spółdzielnie mleczarskie, ewidencja, wycena