

# ACCOUNTING ON THE PARTICULARITIES THAT CONCESSION AGRICULTURAL UNITS

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*Agriculture*<sup>61</sup> represents the branch of the material production which deals with growing crops and raising animals in order to obtain farm produce and some raw materials, as well as the totality of works and methods used for this purpose. Agriculture has specific traits mainly induced by the traits of its results. Thereupon, what sets apart agriculture from other sectors of the economy is the volume, structure and concretization of the resources in the process of their consumption. The essential cause of these differences is the fact that land is the main production factor and that, compared to the development level of the production forces and the natural and biological factors, it behaves in a specific manner. Definitions and characteristics of agricultural activities are given also in The International Financial Reporting Standards (IFRS)<sup>62</sup>, respectively IAS 41, "Agriculture". Hence, according to IAS 41 "Agriculture", **agricultural activity** is defined as the management of the biological transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The received concessions represent an important characteristic of these units and, as a particular case concerning such concessions, we will tackle the issue of terrains pertaining to the assets sold by the Romsilva National Forests Administration.

**KEYWORDS:** agricultural activity, concession,, forest land, agricultural exploitation

**COD JEL:** M – Business Administration and Business Economics; Marketing; Accounting  
M4 / Accounting, M41-Accounting

## 1. Introduction

**The particularities which differentiate agriculture from the other branches of material production are:** Agriculture is the only branch in which inorganic matter is transformed into organic matter, assimilable by man, capable to sustain his/her physiological functions and, moreover, all other economic and social functions. From this point of view, agriculture is and will always be a the primary pre-requisite of life and of any activity; Land(soil and the immediate subsoil layers) has an active role, owed to fertility (a characteristic of the land/soil used for agricultural production and without which the whole agricultural activity could not be made possible); In agriculture the production process unfolds with the help of life organisms, the help of plants and animals; Agricultural production is under the incidence of natural conditions; Raw materials and materials used by man in the technologic process specific to agriculture, can be smaller, in number, volume and weight, than the produce obtained, these being composed of the

biologically created, new, organic matter; when growing plants, during the biologic transformation, the plants are bound to the land; in agriculture differences occur in the shorter work time and the longer production time; this production time include the longer or shorter periods in which living organisms suffer physical, chemical, physiological transformations, without the direct intervention of man<sup>63</sup>; for accomplishing the biological transformation, the expenses are gradually borne, in accordance with the biological rhythm.

Agriculture is compound out of a wide variety of activities: bee-keeping, growing perennial and annual crops, fruit growing and other plantations, flower growing, foresting, pisciculture (including growing fish), etc.

## 2. Accounting regulations regarding concession

Concession represents the convention by which a party named „concedent” (lessor) yields to another party named „concessionat” (lessee), over a predetermined period of time, the right to use some assets/goods or to perform certain operating activities. (Mateş D., David D., 2010,p:137).

*According to Order 3055/2009*, concessions received are reflected as intangible assets when the concession contract includes an established duration and value. Amortization of the concession will be recorded for the entirety of the duration, established in the contract.

In case the contract assumes payment of royalty and not an amortization value, in the accounting of the entity receiving the concession, the expense representing royalty is reflected, without the acknowledgement of an intangible asset. (point 81(2)).

### Example 1:

An entity working in the piscicultural field, and which has the purpose to capitalize upon growing carp, receives in concession a lake that belongs to the State public domain. The duration of the concession is 20 years starting with 01.01.N. In the contract the total concession value 1.000.000 lei is stipulated, with a monthly royalty of 4.167 lei, payable on the 15th of the following month. The concession's amortization is calculated with the linear method, on the overall duration of the concession. On the contract's expiry date, the lake is returned to the State's public domain.

**The received concession is reflected as intangible assets because the concession contract entails a period of (20 years) and an established concession value of (1.000.000 lei).**

On 01.01.N, on signing the contract the intangible asset is acknowledged for the total value of the received concession:

1.000.000 lei	<b>205</b>	=	<b>167</b>	1.000.000 lei
	Concessions, patents, licenses, brands, rights and similar assets		Other loans and similar debts	

And simultaneously:

Debit 8038 Public goods received for managing, in concession and rent 1.000.000 lei

Monthly amortization of the concession:

Duration of the contract in months = 20 years x 12 months = 240 months

Monthly amortization = 1.000.000 lei/240 months = 4.167 lei

4.167 lei	<b>6811</b>	=	<b>2805</b>	4.167 lei
	Operating Expenses regarding assets' amortization		Amortization of concessions, patents, licenses, brands, rights and similar	

assets

On 15 February N the monthly rent is recorded:

4.167 lei	<b>167</b>	=	<b>404</b>	4.167 lei
	Other loans and similar debts		Suppliers of fixed assets	

Payment of rent:

4.167 lei	<b>404</b>	=	<b>5121</b>	4.167 lei
	Suppliers of fixed assets		Bank accounts in lei	

The last three records are repeated monthly for a period of 20 years, the duration of the concession contract.

On the expiration of the contract, simultaneously with returning the lake, the removal of the received concession from the assets of the entity is recorded:

1.000.000 lei	<b>2805</b>	=	<b>205</b>	1.000.000 lei
	Amortization of concessions, patents, licenses, brands, rights and similar assets		Concessions, patents, licenses, brands, rights and similar assets	

And simultaneously:

Credit 8038Public goods received for managing, in concession and rent 1.000.000 lei

### Example 2:

An entity working in the piscicultural field, and which has the purpose to capitalize upon growing carp, receives in concession a lake that belongs to the State public domain. The duration of the concession is 20 years starting with 01.01.N. In the contract a monthly royalty of 4.167 lei, payable on the 15th of the following month, is stipulated. The concession's amortization is calculated with the linear method, on the overall duration of the concession. On the contract's expiry date, the lake is returned to the State's public domain.

**The received concession** is reflected as an **expense** because **the concession contract** stipulates the payment of rent (4.167 lei) and not an amortization value.

On 01.01.N, on signing the contract the total value of the royalties is recorded outside the accounting books: = 4.167 lei x 20 years x 12 months = 1.000.000 lei:

Debit 8038Public goods received for managing, in concession and rent 1.000.000 lei

On 15 February N the monthly rent is recorded:

4.167 lei	<b>612</b>	=	<b>401</b>	4.167 lei
	Expenses with royalties, administrative locations and rents		Suppliers	

And simultaneously:

Credit 8038Public goods received for managing, in concession and rent 1.000.000 lei

Payment of rent:

4.167 lei	<b>401</b>	=	<b>5121</b>	4.167 lei
	Suppliers		Bank accounts in lei	

The last two recordings are repeated monthly for 20 years, the duration of the contract

**Particular cases regarding concession: The terrains afferent to assets sold by the Romsilva National Forests Administration**

**A particular case of concession** occurs in the **forest domain**, where the State owned public forest fund **cannot be leased**, with the exception of the **terrains afferent to assets sold by the Romsilva National Forests Administration**(The Forest Code in art. 11, paragraph 3).

These terrains are referred to in **Order nr. 367/2010 of the Environment and Forests Minister for the approval of the concession value, the method of computing and payment of royalties obtained from the concession of the terrains afferent to assets sold by the Romsilva - National Forests Administration, as well as the model concession contract.**

**Example 3:**

We assume that a private forest ward acquires from the Romsilva - National Forests Administration several building, respectively: a former forest range premises, a ward headquarter, two shelter sheds for workers, two reciprocating saws and 3 forest berries picking up points. The acquisition cost of the buildings was 300.000.000 lei.

Together with the buildings' sale contract, **the concession contract for the forest terrain** is signed, the duration of the concession, according to Order 367 from 2010, is of **49 years**. The contract was signed on 01.01.N.

Moreover, we assume that the forest plot of land on which the buildings are placed presents the following characteristics:

-The surface of the leased plot of land is: 4.520,4573 ha

-The plantation on the plots of land is made up of the Birch trees which allow for intensive treatments, for instance forest gardening, as well as plots of land intended for afforestation, pertaining to functional type TIII.

-The terrain is situated at a distance of over 10 km from the limit of the buildable perimeter of a mountain village.

-The situation of the terrain compared to transportation links is presented below:

♦Transportation by roads: the terrain is situated at a distance of maximum 2 km from a county road; a village road and a forest road.

♦Train Transport: the terrain is situated at a distance of maximum 5 km from a train station.

-Other utilities: there are electric energy distribution networks situated up to 500 m from the leased terrain.

The surface of the national forest fond in the county is somewhere between 16,1-20%.

The medium price of a cubic meter of wood for birch tree is 150 lei/m<sup>3</sup>.

We shall take into account an established BNR interest rate of 5,5 % per year.

**Solving the case:**

*Annual royalty = VAC x Established BNR interest rate*

$$VAC = S \times Cr \times PML \times (1 + N),$$

1. Computing VAC

$$VAC = 4.520,4573 \text{ ha} \times 3,4 \text{ m}^3/\text{ha} \times 165 \text{ lei/m}^3 \times (1+76) = 195.270.193 \text{ lei}$$

2. Computing the annual royalty:

*Annual royalty = VAC x Established BNR interest rate*

$$\text{Annual royalty} = 195.270.193 \text{ lei} \times 5,5 \% \text{ peryear} = 10.739.860 \text{ lei}$$

$$\text{Monthly royalty} = 10.739.860 \text{ lei}/12 \text{ months} = 894.988 \text{ lei}$$

3. Computing guarantee:

$$\text{Guarantee} = 5 \% \times \text{Annual royalty}$$

$$\text{Guarantee} = 5 \% \times 10.739.860 \text{ lei} = 536.993 \text{ lei}$$

**Order Nr. 367/2010** also presents in the annex a contract model in which only the value of the royalty is specified, thus excluding the capitalization option.

Given that the value of royalties is computed annually, based on the addendum to the contract, the problem of recording the resulting difference arises **from an accounting point of view**.

The accounting postings that we propose are shown below:

On 01.01.N, based on the sale / purchase contract, the acquisition of the buildings is registered:

300.000.000 lei	<b>212</b>	=	<b>404</b>	300.000.000 lei
	Buildings		Supplier of fixed assets	

On 01.01.N, the concession contract for the total value of royalties is registered outside the accounting books: 894.988 lei x 49 years x 12 months = 526.252.944 lei.

Debit 8038 Public goods received into administration, concession and rent 526.252.944 lei.

On 30.06.N (in 180 days) the deposit is registered:

536.993 lei	<b>2678</b>	=	<b>5121</b>	536.993 lei
	Other receivables		Bank accounts in lei	

On 30.06.N the biannual royalty is registered: 894.988 x 6 months = 5.369.928 lei

5.369.928 lei	<b>612</b>	=	<b>401</b>	5.369.928 lei
	expenses with royalties, administrative locations and rents		Suppliers	

And simultaneously:

Credit 8038 Public goods received into administration, concession and rent 5.369.928 lei

Royalty payment:

5.369.928 lei	<b>401</b>	=	<b>5121</b>	5.369.928 lei
	Suppliers		Bank accounts in lei	

The last two entries are also made on 31.12.N.

For year N + 1, we suppose that the VAC value is the same, but the reference interest rate set by the National Bank of Romania (BNR) is 5,6%

*Annual royalty* = 195.270.193 x 5,6% per year = 10.935.131 lei

*Monthly royalty* = 10.935.131 / 12 months = 911.260 lei

The increase in the monthly royalty will have to be registered for the remaining 48 years:

*Deposit* = 5% x *Annual royalty*

*Deposit* = 5% x 10.935.131 lei = 546.756,5 lei

Difference = 546.756,5 lei – 536.993 lei = 9.763,5 lei

9.763,4 lei	<b>2678</b>	=	<b>5121</b>	9763,5 lei
	Other receivables		Bank accounts in lei	

On 30.06.N+1 the biannual royalty is registered: 911.260 lei x 6 months = 5.467.560 lei.

5.467.560 lei	<b>612</b>	=	<b>401</b>	5.467.560 lei
	expenses with royalties, administrative locations and rents		Bank accounts in lei	

And simultaneously:

Credit 8083 Public goods received into administration, concession and rent: 5.467.560 lei.

Payment of the royalty:				
5.467.560 lei	<b>401</b>	=	<b>5121</b>	5.467.560 lei
	Suppliers		Bank accounts in lei	

The last two entries are also made on 31.12.N.

For the year N+2, we suppose that the VAC value is the same, but the BNR reference interest rate is 5,4%.

*Annual royalty* = 195.270.193 lei x 5.4% per year = 10.544.590 lei

*Monthly royalty* = 10.544.590 lei / 12 months = 878.715,8 lei.

The decrease of the monthly royalty will have to be registered for the remaining 47 years:

(878.715,8 lei – 911.260 lei) x 12 months x 47 years = 18.354.928.8 lei

Consequently, on 01.01.N+2:

Credit 8083 Public goods received into administration, concession and rent 18.354.928,8 lei

The last two entries are also made on 31.12.N.

### 3. Conclusions and Propositions

Traditional forms of agricultural units are still maintained, even though agriculture is less homogenous than industry when it comes to the socio-economic organization, and in spite of the considerable diversity of models all around the world. These traditional agricultural units harmonize with the modern ones, thus creating complex, coherent and economically viable national systems.

The entities which perform agricultural and food production activities are currently called: **unit; exploitation** or an **agricultural enterprise**.

The concept of **agricultural unit** has a wide significance, defining any entity in which agricultural products are obtained.

*The agricultural unit represents the “place” where the agriculturalist combines factors of production in order to obtain agricultural products. The agriculturalist can exploit the land as an owner, a renter, an administrator or an entrepreneur.*

The variety of agricultural units commences with the infield exploitation and they spread all the way to extremely complex, holding-type (and often fully integrated) units.

A typical feature of agriculture is the fact that a considerable part of the production means are obtained directly from the production process, such as: planting material, seeds, breeding animals. This is where some particularities in the recognition and evaluation of accounting structures which are typical of agricultural activities.

**The legislative framework** with a direct incidence on the agricultural entities can be structured as follows: Regulatory documents which govern the organizing and functioning mechanisms of the agricultural entity, regulatory documents which govern the way of organizing and keeping of accounting, regulatory documents which govern fiscal aspects, regulatory documents particular to the diverse agricultural activities.

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## **NOTES**

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