

REVIEW PAPER

The economic effects of the agricultural subsidies on the enterprise' operations

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Abstract

Hungary has been a Member State of the EU since 1st May 2004. After EU accession the subsidies are becoming more and more important, thus it proves necessary to address matters of accountability as a topic of high priority. When we are speaking about effect of the subsidies we have divide the financial and company result side. There are two types of subsidies from the accounting point of view: subsidies for development of fix assets and subsidies for cots of an activity (financed cost by subsidies).

The subsidies can help to repair enterprise' liquidation system. The enterprises havn't to advance cost of the projec at the pre financed susidies system, so this financing form gives more possibilities. In that case, if the tender requires own resource the enterprise has to put up the money from its other own activity.

Key words: subsidies, liquidity, settlement, operation cost

Introduction

We can approach tasks related to accounting from several aspects. On the one hand, it is necessary to describe the concrete duties related to the ledger accounting, on the other hand, knowing what costs exactly can be settled against the subsidy also proves significant, as well as the method financing our project.

The role of the rural areas and agriculture is important for Hungary. The successful integration of Hungary's agri-economic system into the Common Agricultural Policy and the single market, and also access to rural development funds, have had a significant influence on the opinion of Hungarians about EU membership. (Halmai, 2007)

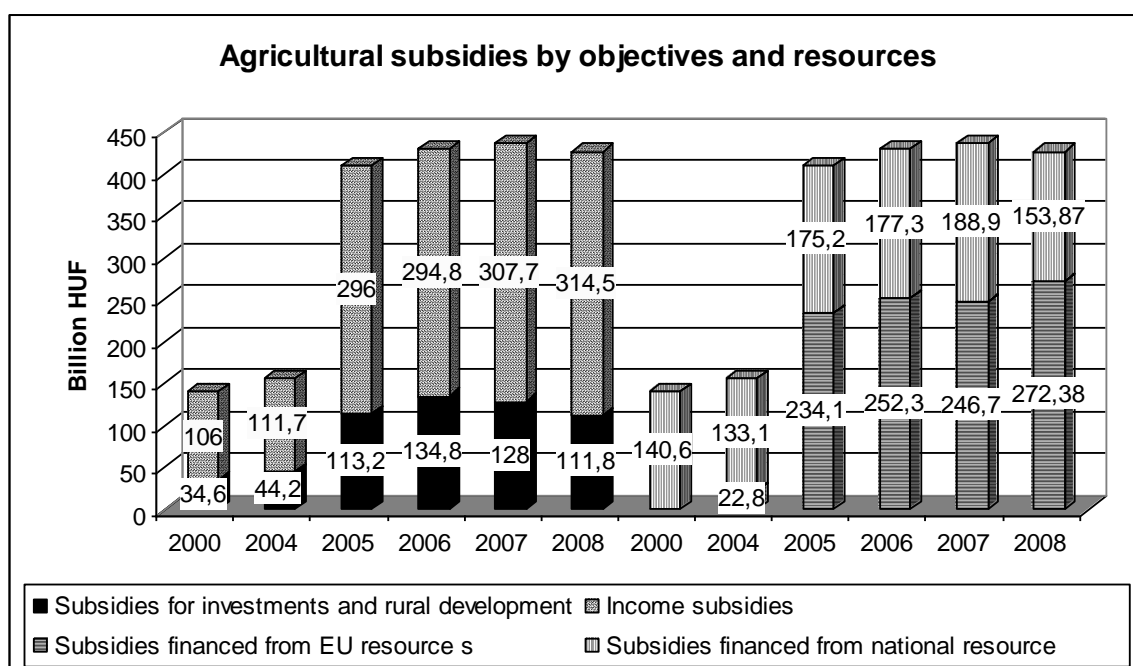
After EU accession, the resources available with EU co-financing under the SAPARD programme, the Agricultural and Rural Development Operative Programme (ARDOP) and the National Rural Development Plan (NRDP) provided aid for structural changes and the modernisation of Hungarian agriculture and the rural economy. These are (FVM, 2008):

- The EU launched the SAPARD programme in 2000 with two goals in view. The first was to help develop an institutional system, which, following accession, would be able to manage the resources available for rural development. The second goal was to provide financial assistance for specific rural development projects.
- ARDOP has nine development and developmentrelated measures grouped around three priorities with a commitment of HUF 105.2 billion.
- Typically, the NRDP includes support measures in the form of reimbursements to farmers on the basis of prior applications. From the original budget, a total of HUF 25 billion was rescheduled for SAPARD projects and direct payments (direct farmer support), with the European Commission's consent. Therefore a budget of HUF 163 billion, available for use until the end of 2008, was allocated for NRDP measures in 2004–2006. In general, the measures cover commitments and liabilities undertaken for several years (usually for five years).

- As part of its efforts to make changes in the financing of rural development starting from 2007, the European Union pooled the available resources into a newly created fund: the European Agricultural Fund for Rural Development (EAFRD). Hungary set out its planned rural development measures for 2007–2013 in the New Hungary Rural Development Programme. Payments amounting to HUF 18.7 billion were already made from the NHRDP budget in 2007.

The Hungarian government supports agriculture from national resources, in addition to the funds provided by the EU. A total of HUF 435.7 billion was paid for agricultural and rural development support in 2007, 43% of which came from national budgetary sources and 57% from the EU. The most important target areas supported by the EU are as follows (FVM, 2008):

- Subsidies paid under the National Rural Development Programme (NRDP): HUF 66.8 billion (of which HUF 13.4 billion in national co-financing);
- New Hungary Rural Development Programme: HUF 18.7 billion (of which 14.6 billion came from national resources);
- Subsidies paid under the Agricultural and Rural Development Operative Programme (ARDOP): HUF 27.9 billion (HUF 6.7 billion in national cofinancing);
- EU-financed Single Area Payment (SAPS): HUF 120 billion;
- Market support paid directly by the EU: HUF 48 billion.



Graph 1. Agricultural subsidies by objectives and resources

Material and methods

The subsidies influence the entrepreneur activity and help to develop the enterprise assets and the profitability of the company. The subsidies means that the company's development is supported from outside.

Basic knowledge of the subsidies

When we are speaking about effect of the subsidies we have divide the financial and company result side.

The registration of the subsidies is regulated by the accounting law in Hungary. There are two types of subsidies from the accounting point of view.

1. subsidies for development of fix assets
2. subsidies for costs of an activity (financed cost by subsidies)

The aim of the subsidies for development of fix assets is to make or buy a new land buildings or technical equipment. These assets are long term assets and the effect of the subsidy is more than one year. If we are looking the effect of the subsidies we have to take into consideration the content of the tender and the financial rate of the expenses. Some tenders finance the total (100 %) expense of the activity and the other tenders finance only some part (for example 40%-99%) of the expenses. If the financial part is not 100 % the company have to find the additional financial source for the rest (non financed part) expenses. It means that the other company activity will cover partly the tender expenses.

The getting the subsidy in cash is not irrelevant at all by the company liquidity status. The tenders can be:

1. pre financed
2. post financed

Pre financed tender means that the company get the money before the activity and he has no (hopefully) financial difficulties during the realization of the activity.

The post financed situation can make financial difficulties for the company. It means that the expenditures have to be paid first by the company and get later the money. It is not rare that after a half year enter the sum to the company's credit in Hungary. In this point of view the applicant have to find other financial source for the realization of the tender or have to be pre financed by itself.

Results and discussion

The subsidies for development of fix assets

By the mentioned above let see the financial and result effects of the subsidies. First we see the subsidies for development of fix assets. The aim of these tender is to make a new fix asset. In this case the price of the fix assets are paid from subsidies. To understand this situation there is an example. The company develop its fix assets. They buy for 400 000 € a new machinery. The financial rate of the tender is 90 % and post financed. The life time of the equipment is 10 years.

We don't deal with the VAT because it is in the tender price or the VAT is charged in advance.

First the company buy the machinery from the trade creditors. In this step the company has a new machinery for 400 000 € and a short term liabilities. In some day the company will pay the creditors. The result of the company unchanged but the liquidity status will be worse at this moment. After some time the company get the subsidies. The result increase at this moment.

But, there is a view that the things what we get free of charge can not influence the company's profit. The result have to be or could be the self output or self achievement of a company. Because of this it have to equalize the increasing of the result. The equalizer is the accrued and deferred liabilities.

The company starts to use the machinery for its activity. The using the fix assets means depreciation and is cost. We propose that the usage of the machinery is whole year.

Table 1. Subsidies for development of fix assets

The event	Settlement	Result / financial effect
Buying for 400 000 €	+ machinery + trade creditors	No result change The content of the property changed
Paying the trade creditors 400 000 €	liquid assets trade creditors	No result change The content of the property changed The liquidity getting worse
Getting the subsidies 360 000 € (90% of the price)	+ liquid assets +extraordinary revenues	At this moment the result will increase (temporarily). + 360000 €
To neutralize the increased result, by the amount of the 90 % depreciation (at least at the end of the year)	extraordinary revenues + accrued and deferred liabilities	At this moment the result will decrease (temporarily). - 360 000 €
One year depreciation 40 000€	+ ordinary depreciation cost - machinery	Result decrease by 40 000€
90 % of depreciation is financed by subsidies	+ extraordinary revenues - accrued and deferred liabilities	Result increase by 36 000 €

To sum up: the subsidies for development of fix assets influence the company's result by the self rate of tender. The liquidity status depends on the financial time and the financial strength of the company.

Subsidies for costs of an activity

The company won a tender for retraining it's employees because the company starts to produce a new product. The tender is 50% subsidized. The tender period 1,5 years and has 3 milestones. (The supposal is that the 1,5 years period is steady between the years.). The tender amount is 150 000 €. The company get advance 25 000€. The project is post financed and the advance is for the last milestone.

Table 2. Subsidies for cots of an activity I.

The event	Settlement	Result / financial effect
1 st milestone		
Getting the advance 25 000€	+ liquid assets + long term liabilities	No result change The content of the property changed
1 st milestone costs (material, wages and salaries, other expenses etc.) 50 000 €	+ costs - assets + liabilities	Result decrease -50 000 €
Getting the 1 st milestone's subsidies 25 000 € in the same accounting year	+ liquid assets + other revenues	Result increase + 25 000 €
2 nd milestone		
2 nd milestone costs (material, wages and salaries, other expenses etc.) 50 000 €	+ costs - assets + liabilities	Result decrease -50 000 €
Getting the 2 nd milestone's subsidies 25 000 € in the next accounting year.	+ accrued and deferred assets + other revenues	Result increase + 25 000 €

The company gets the subsidies in the next accounting year. By the accrued principle the company have to settle the result's effect in that year within is the event (realization of the tender).

In the 1st accounting year the company result decrease 50 000 €. This amount is the self financed part of the tender.

Table 3. Subsidies for costs of an activity II.

The event	Settlement	Result / financial effect
	3 rd milestone	
3 rd milestone costs (material, wages and salaries, other expenses etc.) 50 000 €.	+ costs - assets + liabilities	Result decrease -50 000 €
Getting the 2 nd milestone's subsidies 25 000 €.	- accrued and deferred assets + liquid assets	No result change The content of the property changed
The 3 rd milestone's subsidies 25 000 €.	- liquid assets + other revenues	Result increase + 25 000 €

At the end of the tender the finance will be completed and the company finished the activity.

This type of finance is much more safety for the companies because the liquidity status is much more better then the post financed tenders.

Conclusions

The subsidies can help to repair enterprise' liquidation system. The enterprises havn't to advance cost of the projec at the pre financed susidies system, so this financing form gives more possibilities. In that case, if the tender requires own resource the enterprise has to put up the money from its other own activity.

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