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Accounting policies VS. Financial performance applicable to agro food companies

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Abstract

In tough competition of world, which only performance resisting the changes, the vital in taking the best decision is to ensure the balance between thought and action. If the methods used, analyzing and synthesizing information are good especially when financial results are element key for an entrepreneurial to focuses theirs attention and orient their efforts.

In Romania, the performance and the success have become the motivation for any agro food companies what trying to enroll in the demands of the market economy. European competition requires primarily financial and economic dimensions of activity and food companies and for that an essential role returns for economic performance.

This analysis allows making judgments and assessing the results of their correlation with financial and solvency structure rationalization study based on economic data and company's accounting.

Depending on the methods used for obtaining, analyzing and synthesizing information particularly, the manager of agro food companies will know how to start and how to learn from the results.

This paper presents the concepts, rules, conventions and practices of the agro food companies Iasi, Romania

Keywords: performance, accounting policies, agro food companies, financial statements,

Résumé

Dans le monde de la rude concurrence, où seulement la performance résiste au changement, l'essentiel dans la prise de la meilleure décision consiste à assurer l'équilibre entre la pensée et l'action. Si les méthodes utilisées pour obtenir, analyser et synthétiser l'information sont bonnes, alors les résultats financiers représentent les éléments clés vers lesquels un entrepreneur focalise son attention et oriente ses efforts. En Roumanie, la performance, la réussite et le succès sont devenus la motivation de toute entreprise agro-alimentaire qui tente de répondre aux exigences de l'économie de marché. La concurrence européenne exige la prise en compte, principalement, des dimensions financières et économiques de l'activité des entreprises de l'agro-alimentaire et aussi la performance économique et financière acquiert-elle un rôle primordial. Cette analyse permet de porter des jugements et d'évaluer les résultats, leur corrélation avec la structure financière et la solvabilité à partir du raisonnement sur les données économiques comptables de l'entreprise. Selon les méthodes utilisées pour obtenir, analyser et surtout synthétiser les données, le gérant d'une entreprise agro-alimentaire saura comment démarrer et comment apprendre à partir des résultats. Notre travail présente les concepts, les règles, les conventions et les pratiques propres aux entreprises agro-alimentaires du département de Iasi, Roumanie.

Mots-clés: la performance, les politiques comptables, les entreprises agro-alimentaires, les situations financières

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1. Introduction

The performance, the success, has become the motivation of any food company in Iasi. Who is trying to join the market economy requirements

The European competition requires taking into account primarily the company's financial and economic dimensions of food and therefore plays an essential role in economic analysis of financial performance.

This analysis involves making judgments and assessing the results of their correlation with financial structure and solvency, based on the study of economic data rationalization and accounting companies.

Assessment of performance parameters are causes that had a significant share in the genesis and evolution of corporate results is greatly facilitated if one takes into account the company's vocation, the mode of analysis, or liquidation. The operating condition shows great variation performance in the foreseeable future, for determining the issues in this end generation of cash flows based on existing resources (Gabriela Ignat , 2008). In a market economy, any agro food company that wants to remain competitive must continuously improve product quality, to ensure the profitability and cash flow generated by each product or sector of activity in part.

2. Research methodology

The study shows, in an accessible manner, the concepts, the rules, and the conventions and practices of financial accounting.

This paper addresses the issue of restricting the theoretical proposed for the direct cost of accounting practice in the accordance with Accounting Standards International and accounting regulations in Romania.

Research methods used in this paper has bibliographic study, observation and comparative analysis.

Case studies were done at three food companies from Iasi county (meat processing Kosarom SA, viticulture SC Cotnari SA Company specializing in cereals AGROM) were analysed performance indicators over a period of three years, resulting in annual financial statements prepared in accordance with accounting policies.

3. Results and discussions

The performance analysis involves the study of the relationship between food companies, the information contained in these documents, at a time and tend evolution, whereas a certain period of time.

The main purpose of the analysis is the obtain a pertinent internal situation of the company, reflected concentrated in the profitability and efficiency of risk information and then allow selecting optimal investment decisions. This can develop predictions about the future evolution of the company analysed and its financial condition could diagnostic. The annual financial statements of a company aimed the assisting food decision-making processes related to the organization, primarily investment decision. Therefore, the accounting information must be reliable and relevant, but at the same time understandable and comparable. Comparability of financial information allows for comparisons over time to studying past and present financial statements. Financial results are foundation elements for an entrepreneur focuses on directs its efforts. Unlike economic analysis which is information provider, the accounting reflects how the results are related to those assets and assets and liabilities highlight their dynamics and elements which determine the specific relationship for needs of its business and financial policy they promote. The financial analysis is the activity of diagnosing the state of the company's financial performance in the financial year. It aims to establish the strengths and weaknesses of financial management in order to substantiate a new strategy for maintaining and developing a competitive environment. It is obvious that a manager for get a higher profitability of all economic activity in the company that manages food must maximize the economic function of profits and to minimize costs. How can you do that if not by use the economic information of quality so that all new knowledge are built on the skeleton of existing ones so every time certifying their quality.

Like embodiments of the application of accounting policies, the balance sheet and income statement reflects the position and financial performance of a company. The latter are useful to users of financial statements to predict: the future needs of credit and the company's chances for receive funding in the future, the company's ability to honour its financial commitments outstanding, the efficiency with which the company can use new resources. Choosing from the range of treatments allowed those who applied by the company, becomes flexibility, the important factor in the presentation of financial position and performance of accounting companies. The accounting policies representing the principles, the bases, the conventions , the rules and practices applied by an entity in preparing and presenting financial statements annual. The management entity establishes the accounting policies for transactions conducted through them and their policies have been developed based on decisions. These policies have been developed in view of the specific activity and the strategy adopted by the

entity. Accounting policies have been drafted so as to ensure delivery by the annual financial statements of information: relevant to the needs of users in making economic decisions, credible.

The changes of accounting policy is permitted only if required by law or results in more relevant or reliable information regarding the operations of the entity. Entity shall disclose in the notes any changes in accounting policies for users to judge if the new accounting policy to be chosen properly, the effect of changing the reported results in the period and the real trend of the company's business results. As a result of the uncertainties inherent in the activities, many elements of the financial statements of the entity cannot be measured precisely, only estimated. The estimation process involves judgments based on the latest reliable information that the company has at its disposal.

The items shown in the annual financial statements of the entity is evaluated in accordance with general accounting principles, accrual.

The effects of transactions and other events are recognized when transactions and events occur (and not as the Treasury or its equivalent is received or paid) and recorded in the accounts and reported in the financial statements of the related periods. Under the going concern principle, it must be presumed that the company and food continues to operate normally, without going into liquidation or significant reduction of the activity. According the consistency of food companies valuation methods must be applied consistently from one financial year to another. Within these companies must comply with the principle of prudence which emphasizes that assessment must be made on a prudent basis , and in particular : may be included only profits made at the balance sheet accrual principle , the company has to take into account the revenue and expenditure for the financial year irrespective of the date of receipt or payment of such income and expenses. Regarding the principle of Separation of assets and liabilities, the company should evaluate individual components of assets or liabilities.

The netting principle which compensates any food companies off between asset and liability items or between items of income and expenses is prohibited.

Any compensation from the company receivables and payables to the same trader may be affected by observing the law, only after recording accounting of revenue and expenditure at full value.

In Iasi, three firms were randomly selected from company's representative of the meat processing food, alcoholic beverages and agro which was aimed analyze performance indicators.

For the company of the wine, the objective of financial statements was to provide all information

about the financial position, performance and changes in financial position of the company that is useful to a wide range of users in making economic decisions.

The financial position was influenced by the economic resources it controls, its financial structure, its liquidity and the ability to adapt to changing environment in which it operates, namely the wine industry.

To achieve the objectives, financial situation be familiar were developed accrual, the effects of transactions and other events are recognized when transactions and events occur and are recorded in the accounting records and reported in the financial statements of the related periods. Following the legal framework created by the application of Law 82/1991 and Minister of Finance no.3055/2009, this company is leading the double entry accounting so ensure: systematic chronological accounting record of all economic transactions, depending on their nature, simultaneously, the flow of credit accounts and other accounts, knowledge of the total debit and credit amounts and the final balance of each monthly trial balance reflect equality between the total amounts receivable and payable or accounts receivable and payable, presenting the situation of heritage and achievements, namely the balance of assets and liabilities and their income, expenses and profits or losses by account profit and loss.

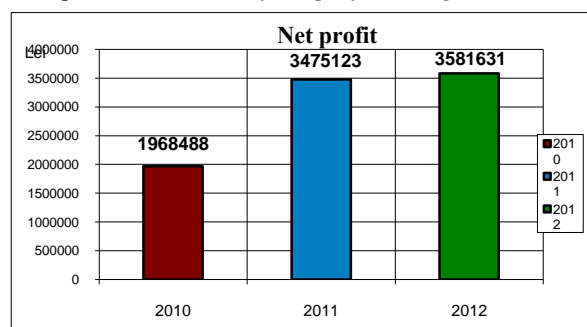
To give a true picture of the assets, liabilities, financial position and achievements, leadership of the company comply with the rules on the assessment of property and all other rules, regulations and accounting principles. Precautionary principle.

For a period of three years from 2010 to 2012 were analysed several indicators SC Cotnari SA, Iasi county representative in the vine vineyard.

Balance sheet ratios

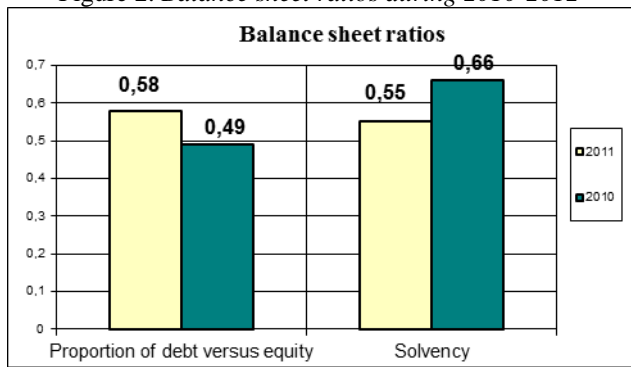
- Debts to equity ratio indicate a small decrease from 2.64 in 2010 to 2.47 in 2011.

Figure 1. Evolution of net profit during 2010-2012



- Solvency company registered an upward trend in the 2010-2011 periods reaching the value of 0.33 which creates difficulty paying its debts due.

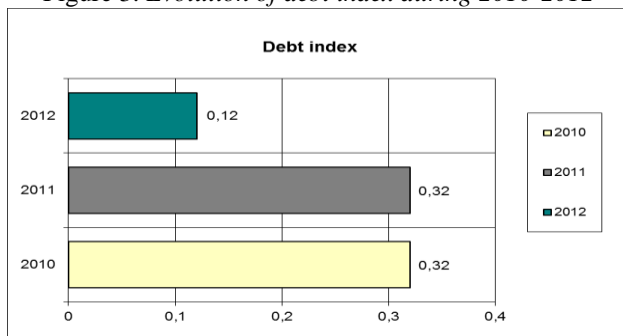
Figure 2. Balance sheet ratios during 2010-2012



Debt index

Liabilities or indebtedness index has decreased in the last year compared to the first years that reach the value of 0.75 which indicates that the company has a high self-financing capacity.

Figure 3. Evolution of debt index during 2010-2012



Profitability

- in the analyzed period is observed that both gross and net profit margins increased in 2011 compared to 2010 due to increased company profits followed by a slight decrease in the last year of analysis;
- ROE is trending upward in 2010-2012 due to improving sales and the company reported in its income due to improved commercial services company

Table 1. Profitability during 2010-2012

Profitability	2010	2011	2012
Gross profit margin (%)	2,7025	4,0239	3,9096
Net profit margin (%)	2,3300	3,4884	3,3988
Return on equity before tax	2,4447	3,4516	3,3601
Return on equity after tax	2,1078	2,9923	2,9211

Operating Ratios

- regarding the inventory turnover rate has the same upward trend with a significant increase in 2012 due to increased turnover of the company;
- speed of receivables collected in the years following sequence is analysed, namely:

Table 2. Operating ratios during 2010-2012

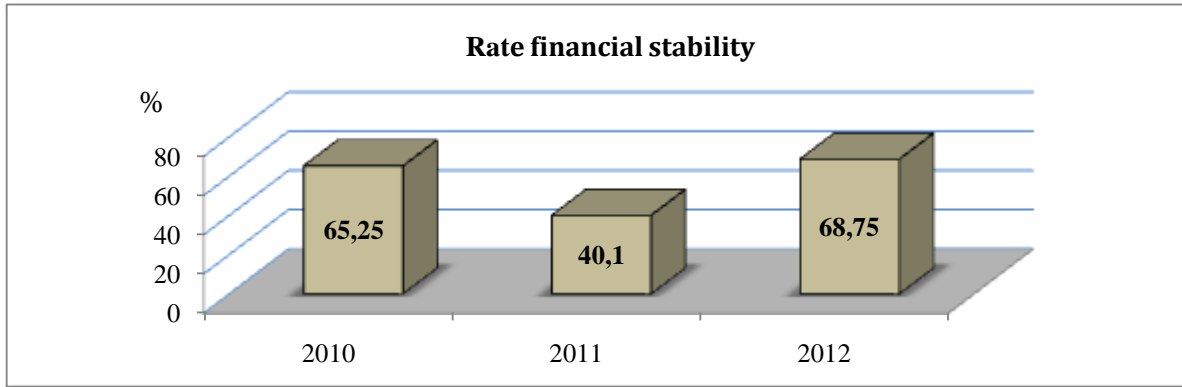
Operating Ratios	2010	2011	2012
Inventory turnover (days)	25,8747	26,3984	53,8464
Receivables turnover (days; TVA - 24%)	91,7497	105,7342	61,9520
Total assets turnover (times)	0,3224	0,3252	0,1250

- 2010 91.7497, 105.7342 in 2011, and a decrease in the last year, reaching 61.9520 analysed this growth owing debts from various third parties;
- Company's assets in terms of their rotation they are stagnant in 2010 and 2011, with a decline in 2012 due to lower assets, and a decrease in turnover.
- At Agromax society were followed indicators: based on the annual financial statements were analyzed key performance indicators.
- The financial statements are published as basic accounting, with the objective of providing information about the financial position, performance and cash flows enterprise useful to a wide range of users in making economic decisions.
- The entire period analyzed (Figure nr.4) agricultural society has a good degree of autonomy, above the minimum acceptable value.

However indicator registered a fluctuating trend due to the slower growth rate of permanent resources to the current ones.

Reduction of indicator in 2011 with 25,15 % compares to 2010 reflects an increase in the share of resources in financial cyclical company. Last year over 68 % finance their agricultural society in activity of permanent capital, an increase of 28,65 % over the previous year.

Figure 4. Rate financial stability 2010-2012



In the first year agricultural society is able to cover more than the total debt due entirely equity. Equity was 86,11 % higher than barrowed and raised.

Table 3

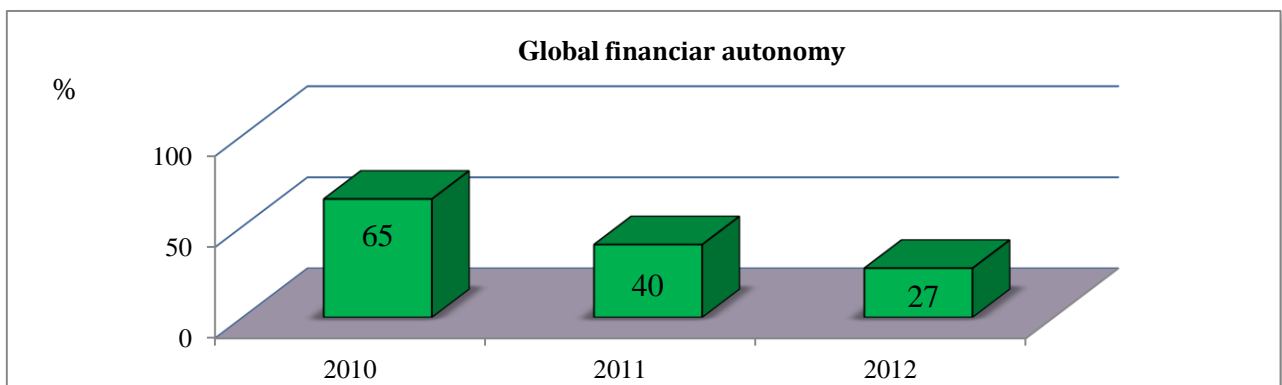
Nr. crt.	Specification	UM	Period of analysis		
			2010	2011	2012
1	Equity	Lei	126993	165847	261493
2	Equity growth rate	-	-	1,3	2,05
3	Total debt	Lei	68234	248734	693088
4	Growth rate of debt	-	-	3,64	10,15
5	Financial autonomy index	%	186,11	66,67	37,72
6	The minimum acceptable	%	50	50	50

This situation is not so mentally and in the years 2011 and 2012 the agriculture society cannot cover its debts showing a reduction of equity capital with 33,33 % in 2011 and with 62,28 % in 2012, as a matter of fact: equity decreased confirming back of profitability for business; increase in debt with

higher rates due to increased short-term debt (table 1).

Agricultural society does not have a very good global financial autonomy for the entire period analyzed, except for the base year of the analysis, because it shows an upward trend due to back of bank liabilities.

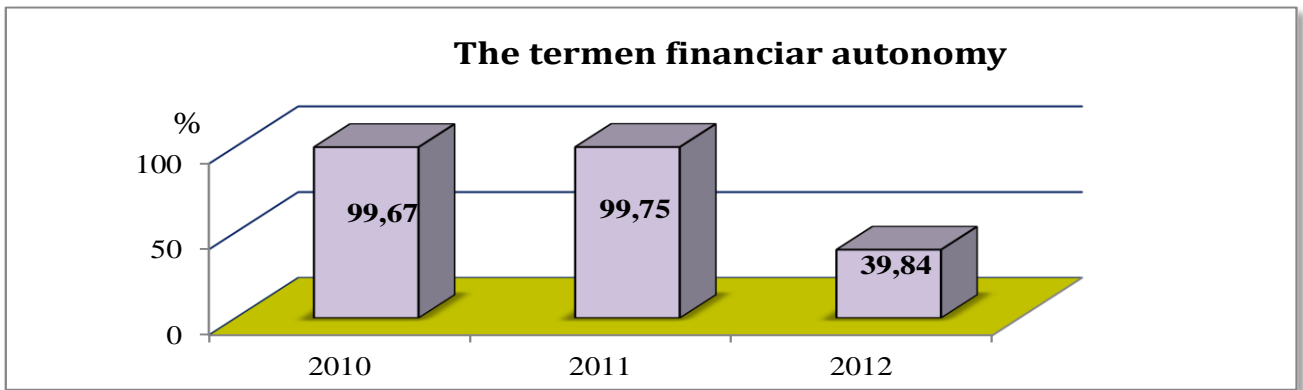
Figure 5. Global financier autonomy



Experts in the field estimate that in order to ensure financial autonomy the capital must represent at least half of the permanent. At the agricultural society, in the first two years of analysis autonomy rate is very high close 100 %, and in the last year of

analysis financial autonomy is ensure term because is less than 50 % (Figure nr.3). Financial autonomy is paramount for a enterprise because it gives the possibility to decide in complete freedom and also to find and acquire new loans.

Figure 6. The financial autonomy

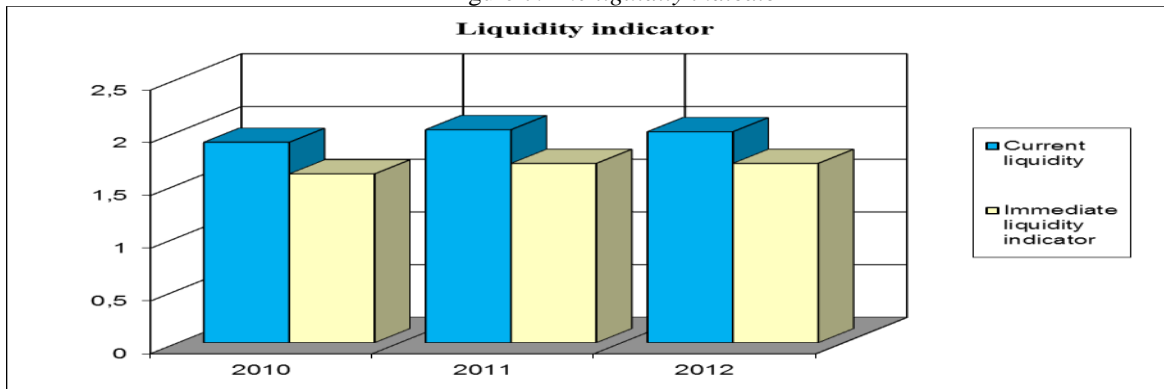


From this point (Figure nr.6) of view the agricultural society is in a favorable situation only in the first years of analysis, namely in 2010 and 2011, when the index value is below the maximum level and in the last year of analysis than the maximum

permissible value of the indicator recorded, increases from year to year.

Study case of SC KOSAROM SA
Indications of liquidity

Figure 7. The liquidity indicator



- regarding these indicators of liquidity in the analyzed period is observed that the current liquidity is trending upward in 2011 compared to 2010 and 2012 decreases slightly due to the decrease in current assets.
- immediate liquidity indicator has the same growth rate as the current liquidity ie increase from 1.6 in 2010 to 1.7 in 2011 and 2012.
- Risk indicators
- indebtedness is 0 for the entire period analyzed, which is a positive thing., and Interest coverage indicator reveals that they are covered by more than 5.6 times in the analyzed years.

Activity indicators

Table 4. Activity indicators

Indicators	UM	2010	2011	2012
Inventory turnover	times	2,1	2,1	2,1
Number of days of storage	days	173	172	172
Turnover receivables - customers	days	267	285	279
Speed-vendor payables	days	69	92	89

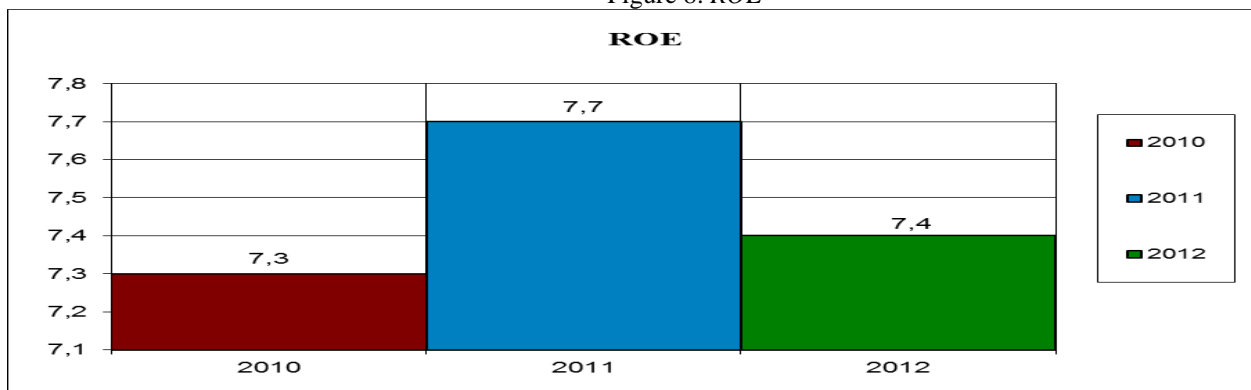
Rotation speed of tangible	times	1,4	1,5	1,4
Rate of return on total assets	times	0,6	0,6	0,6

- indicators of activity of the firm determines the speed of rotation of stocks that has a value of 2.1 times the entire activity which means that stabilizes their stocks and sales company, which involves a constant number of days storage period analysed about 172 173 days
- rotation speed of tangible assets are stable which is a good thing in business activity, it very well controlling turnover and total but making a ratio of 0.6 times in total assets

Profitability indicators

- Profitability, firm profitability ratios are above 7.3% respectively in the period analyzed with various fluctuations ROE higher in 2011.

Figure 8. ROE



- Gross margin from sales increases in the analyzed period from 11.9% in 2010 to 12.5% in 2011 and 12.2% in 2012 which means that the company obtain a higher operating results from year to year

4. Conclusions and recommendations

In a market economy a company cannot survive and develop only to the extent that it proves that it is able to respond to market society in a sustainable manner, as measured by correct identification of customer requirements, ensuring prompt an offer of products and services. Analyzing agricultural society we observed that the reform in agriculture, micro or macro level shows besides fundamental change of ownership, and change functions radical production and exchange relations of distribution of profit. The return of Romanian agriculture in the network market economy relations, relations of competition, where the criterion is only effective and quality requires a new type of management that the methods and techniques used to meet the requirement of different types of agricultural holdings. These studies conclude that although the agriculture society has nearly two decades agriculture has failed to be performance, for which i recommend the following: increasing acreage to increase profit; increase productivity by purchasing new equipment; providing a large amount of agricultural work to third parties, activity based incomes are obtained with relatively low costs; increasing areas of activity and / or the introduction of new fields by hiring new people and increasing fleet; association with other companies and attracting new investors. Even if the agriculture society has not improved agricultural performance at the regional level remains a balancing factor in terms of revenue growth and support local farmers and producers in this area. It is obvious that a manager, in order to obtain a higher viability of the entire business which he manages,

needs to maximize the economic function of profit and minimize the costs. And how can he do this unless by using some high quality economical information. In such cases, the additional measures are required for the analysis of the company's financial position and performance as indicators determined based financial statements reflect a misleading picture about the company. Whatever the impact of higher or lower on the financial position and performance, accounting policies must be selected and applied in a manner conducive to reflection in true financial picture of the company.

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