

The Different Conception Of Economic Profit In Cooperatives

Juana Isabel Genovart Balaguer

juanabel.genovart@uib.es

Profesora Colaboradora Universitat De Les Illes
Balears

Carlos J. Pomar Castellano

carlos.pomar@uib.es

Titular de Universidad Universitat De Les Illes Balears

Abstract

In the field of business, the concept of result (surplus) is used to define the objective of the economic activity. Such an objective however could be very different depending upon the chosen perspective. Cooperative associations are a special kind of companies that combine economic and social objectives, trying to achieve their social aims while allowing the members to benefit from a positive financial profit, although not as a function of the contributed capital, but to the cooperative work they have served. This work reviews from a critical standpoint the concept of surplus (profit) currently applied to cooperatives, linking it with the foundational coop objectives. Along with the financial profit or loss, we propose to account for a second

financial accounting profit by the enterprise, which we may call adjusted financial profit or loss. We also propose the introduction of a new accounting statement, which will allow obtaining further information about certain economic actions not entirely reflected in the current accounting statements of the cooperatives.

Key words: accounting of cooperatives, result, surplus, social benefit, financial profit or loss, cooperative social balance

La Diferente Concepción Del Resultado Económico En Las Cooperativas.

Resumen

En el ámbito empresarial, el concepto de resultado se utiliza para delimitar el objetivo de la actividad económica realizada. Pero dicho objetivo puede ser muy diferente dependiendo del prisma en que lo observemos. Las sociedades cooperativas son un tipo especial de empresas, que aúnan un objetivo económico junto a uno social, intentan alcanzar los objetivos sociales, pero con la posibilidad de repartir a los socios una parte del resultado económico positivo, aunque no en función al capital aportado, sino al trabajo cooperativo realizado por ellos. El presente trabajo revisa, con una visión crítica, el actual concepto de resultado aplicado a las cooperativas, poniéndolo en relación con sus objetivos. Junto al resultado económico contable y al resultado social, proponemos calcular un segundo resultado económico, al que denominaremos resultado económico ajustado. También propondremos la elaboración de un nuevo estado contable, que nos permitirá obtener información sobre determinadas actuaciones económicas que no se ven reflejadas en su integridad en los actuales estados contables de las cooperativas.

Área Temática: Contabilidad de cooperativas.

Palabras Clave: contabilidad de cooperativas, resultados, resultado social, resultado contable, balance social

Introduction

Cooperative societies are constituted through the association of persons who have common economic and social interests, in order to satisfy these interests by conducting business activities. The members are also the users of the activity carried out by the entity, thus distinguishing these from other business enterprises.

Cooperatives must act within the scope of the principles established by the International Cooperative Alliance (ICA), among others, voluntary and open membership, democratic member control, member economic participation or stimulation of education, training and information regarding cooperative values.

These characteristics make cooperatives a special type of business enterprise, with their own peculiarities that require a particular type of accounting approach.

We propose, as a key aim of our work, to conduct a critical review of the concept of financial profit or loss¹, within the sphere of cooperative societies. We address the study of the concept of profit or loss from two points of view - economic and social - observing the importance of calculating social benefit in cooperatives, as these entities belong to the social economy sector. We question the relevance of using the current concept of cooperative financial profit or loss as a measure of a society's business efficiency and effectiveness. Lastly, we propose, in line with the concept of comprehensive income, a new concept of cooperative financial profit or loss, which will show the real contribution made by the cooperative and will be able to measure the efficiency and effectiveness of business management.

¹ Net income (in American english).

is worth mentioning Fischer, Marshall, Rivero Romero, Hendriksen or Solomons³. In this approach, the concept of profit or loss is identified with the concept of usefulness, but is not merely limited to the capacity to generate this usefulness, but also to maintaining it (Boal, 2005). In the second half of the 20th century, authors such as MacNeal, Alexander, Edwards and Bell and Sprouse and Moonitz focused their efforts on measuring "true profit" (Sousa, 2009).

Along the same lines we find the approaches of Professor Fernández Pirla (1977). According to the Professor, financial profit or loss can be determined using two procedures. The first, following the path of Hicks, consists of finding the difference between the capital value of the enterprise at the end of the period and its initial capital, under the assumption of maintenance of the value of money and the conservation of the productive capacity or efficiency of the capital and maintenance of its liquidation value in real terms; the other procedure consists of considering and directly measuring of the two opposing currents that contribute to the formation of the enterprise's profit or loss. The latter procedure refers, fundamentally, to considering the difference between income and expenses over the period.

tainty. Benefit, according to Clark, was the fruit of uncertain economic variations. Knight, meanwhile, followed the same criteria of uncertainty and risk as Hawley and Clark.

On the other hand, there was another line of thought which considered surplus as the satisfaction of certain needs of members. This line was spearheaded by authors such as Levy (1975) or Katona (1965). In this sense, profit or loss would be seen as a means to cover the aims proposed (Boal, 2005).

In another vein, it is worth remembering that accountancy is conceived as an instrument for preparing the economic-financial information of an enterprise, and thereby for serving as useful to certain interest groups, in their decision making. In capitalist enterprises, there are many users interested in obtaining economic-financial information: managers, administrative staff, customers, suppliers, creditors, employees and investors. Yet there are authors who consider the quintessential users, in capital enterprises, are the investors, as they expect to obtain the maximum profitability for the capital they have invested. Thus, financial profit or loss - measured as the difference between income and expenses over a period - would become one of the most useful tools for investors, as it appeared as the measurement of corporate economic surplus obtained by an entity. This surplus shows high doses of relativity, motivated in the first place by the uncertainty and imprecision of the dimensions making it up - income and expenses - due to the fact of having to delimit them to a certain period of time in order to calculate the periodic financial profit or loss and, secondly, due to having to draw them up based on legal regulations which, in certain cases, allow for different possibilities of action when account-

ing one and the same economic event (Boal, 2005).

Going a little further into the concept of profit or loss and concentrating, particularly, on the concept of financial profit or loss, this has been described in accounting literature as a subjective concept. Sousa (2009) describes in his work the opinions of different authors, in this regard. Hence, Gonzalo Angulo (1996) considers business profit or loss is of a magnitude that is neither objective nor observable by definition. Fernández Pirla (1977) tells us of the relativity of a company's benefit, on considering profit or loss as a consequence of the establishment of a series of premises relating to a company's own economic events and the application of relative assessment criteria. Ijiri (1975), meanwhile, defines profit or loss or benefit as a very ambiguous term and Lukka (1990) regards it as a contractual element by nature as it is based on some notion of value, while this in turn is a socially constructed concept.

Current tendencies in the conception of corporate profit or loss, on an international scale, can be found in the framework of the concept of Comprehensive Income. This is defined as all the changes in net worth over a certain economic period, eliminating the operations carried out with the owners. FASB was the first issuing agency of accounting standards to incorporate it into their Conceptual Framework, in the 80s. Subsequently, both the IASB and the Spanish General Accounting Plan assume this concept on defining the notions of income and expenses, but do not contemplate in their texts any express definition, or what is understood by corporate profit or loss, or comprehensive income. In particular, in Spain, accounting is fundamentally based on

the criterion of historic cost and protection of net worth, in which case the concept of comprehensive income clashes with these conservative approaches. Nevertheless, business globalization and, hence, the necessary international accounting homogenization, herald a profound accounting change in this sense. The new Spanish accounting standards, following the path of the IASB, have commenced this process of change. In this sense, we consider it necessary to continue along the path of international convergence, by proposing the express adoption, by the Spanish standards, of this concept of comprehensive income.

Financial Profit Or Loss Versus Social Benefit

As commented in the previous section, there are theories that defend that the ultimate aim of economic activity is to satisfy certain needs of the very people making up the enterprise, and they see financial profit or loss as a means of satisfying these needs and not as an end in itself. On occasions these needs will have economic overtones, such as perhaps obtaining revenue for the businessman's subsistence or rather for profit and to obtain prestige and power within the society. However, as stated in the study by Socías Salvá⁵, there are societies whose aim is not corporate benefit, but rather social benefit, either in the general or private interest of its own members. This is the case of not-for-profit entities. These may be public or private and pursue a particular interest of their members or a general social interest. Together with not-for-profit and for-profit entities, we find mixed entities such as the ones that combine the two goals, seeking financial profit along with achieving social benefit.

Among these, Socías Salvá mentions solidar-

⁵ See SOCÍAS SALVÁ, A. (2003) "The solidarity component and the result of private economic entities." (In Catalan)

ity economy enterprises, as societies which operate in the market and are able to obtain financial profit, but whose ultimate aim is to achieve a social (human or environmental) goal, with financial profit serving as an instrument in order to achieve this social goal. In these cases, financial profit or loss (obtained from the difference between income minus expenses corresponding to said period) will not really measure management efficiency and effectiveness, in which case the economic-social profit or loss achieved, social economic added value, and economic and social profitability will also have to be calculated. These measurements will be carried out through the use of socioeconomic management indicators⁶, which reveal the fulfilment of the social goals set.

In this sense, cooperative entities could be considered a special type of enterprise, half-way between traditional business enterprises and solidarity economy enterprises, as they combine an economic goal along with a social one. They are created to satisfy the needs of their members (achieving employment, consumption needs of certain goods or services, to provide supplies and services and perform operations that will improve their own farms or activities from an economic-technical point of view, among others), yet also, seek to achieve positive financial profit. One part of this positive financial profit will be allocated to social work, to promote cooperativism and to the maintenance and solvency of the entity, through attribution to mandatory social funds. However, once these funds have been endowed, and the social goals have therefore been fulfilled, the rest of the benefit could be shared out among the members (by way of div-

⁶ In this regard see the work SOCÍAS SALVÁ, A. (1999) "External accounting information private nonprofit entities. Special reference to ONGs." (In Spanish). Edited by ICAC.

idend distribution), although not in proportion to capital contribution, but rather according to the cooperative work performed. This distribution is known as patronage refunds. Patronage refunds are, therefore, not configured as a return on capital contributed but rather as a return on the work performed by the members of the cooperative. On the other hand, solidarity economy enterprises cannot share out benefit among its members and should the society go into liquidation, all the reserves will be allocated to another social entity. This is why we understand that cooperatives share in the philosophy inherent in solidarity economy entities by attempting to achieve social goals, but with the possibility - envisaged in for-profit entities - of sharing among members part of the positive financial profit, although not according to the capital contributed, but to the cooperative work performed. Let us remember, however, that in cooperatives, the return on capital contributed also exists, whenever it is so established in the statutes, but it consists of financial income at a limited interest rate.

This being the case, the concept of surplus in cooperatives would have two sides: on the one hand we would obtain the financial profit or loss, measured exclusively in economic terms, and on the other hand the social benefit, measured through socioeconomic management indicators. Social benefit is taking on much relevance in cooperatives due to the fact that the ultimate aim of cooperative members is not the maximization of financial profit, but rather to cover their particular needs and/or the needs of society as a whole. Once these needs have been covered, part of the resulting surplus will be allocated to mandatory social funds with the intention of allocating it to social activities in the future and the rest will be shared out among the members, through

patronage refunds.

Cooperative social benefit, thus established, bears a close relationship with the concept of corporate social responsibility, which has been so much in vogue in recent times. With cooperatives belonging to the social economy sector, they have adopted as their own the ideology of corporate social responsibility, from the very moment of their constitution. It turns out to be necessary to measure this social responsibility, which is why cooperatives will have to use the management indicators they consider appropriate in order to be able to reflect the fulfilment of the social aims that are the goals of the entity. Below, we proceed to analyse the difficulties in calculating and measuring social benefit in cooperatives, as well as the main instruments proposed in Spain, along these lines.

Application Of Management Indicators In The Cooperative Field. The Cooperative Social Balance.

Since the end of the 20th century up until our days, measuring and evaluating corporate social responsibility has taken on a very important role in the corporate fabric and world economy, both on a public and private entity scale. This evaluation proves to be necessary in enterprises, in order to attain balance between the three social, economic and environmental dimensions. Thus we will manage to improve the image of an enterprise, its productivity and thereby its commercial competitiveness.

Traditionally, socioeconomic management indicators have been used to determine the performance of an organization, the achievement of strategies set by the enterprise, the social, environmental and social responsibility

aspects of entities, all of this both in the for-profit and not-for-profit sectors. In the field of cooperatives, social responsibility is integral to the very cooperative essence. Cooperative societies are socially responsible by their own definition and because they are enshrined in the Social Economy sector. They do not have to make any effort to include social responsibility in their aims, in order to contribute to sustainable development, because this social concern is already implicit in their main aims. However the fact that they may carry out this social commitment tacitly does not preclude the need to show it. In this sense, so far different tools have arisen to evaluate this social responsibility in cooperatives. Castilla Polo and Gallardo Vázquez (2011) summarised them in their work, mentioning as the main tools in Spain the Cooperative Social Balance, the sustainability reports of the Global Reporting Initiative (GRI) and the project entitled RSE.COOP drawn up by the Spanish Business Confederation of Social Economy (CEPES)⁷. The so-called Social Balance stands as a very specific accounting instrument, as it enables business operations to be measured in non-economic areas (Mugarra, 2001). Social Balance is acquiring special relevance in cooperatives, as it is considered to be integral to the very nature of this type of entities. It serves as an instrument to measure the degree of fulfilment of the Cooperative Principles and Values established by the International Cooperative Alliance (ICA). According to Doctor Mugarra in her work, Cooperative Social Balance should enable cooperative inter-evaluation, as well as intra-evaluation within each cooperative. Inter-evaluation will make it possible to make comparisons between cooperatives, by obtaining aggregate data concerning cooperative movement, whereas intra-evaluation will make

⁷ For a deeper reading of the three methods, we can find in Castilla

We totally agree with this approach, proposed from the accounting profession¹⁰, and consisting of including the Cooperative Value Added account as an additional element in the Social Balance, complementary to social indicators. In subsequent sections of this paper, we will go further into the study of this cooperative Value Added account, we will analyse the possibility of including it in the financial statements that cooperatives currently submit, as well as its bearing on the concept of comprehensive income.

odical financial profit (by receiving patronage refunds) would represent remuneration for the sale sub-process performed by the cooperative and not individually by the member.

Nonetheless, establishing a reliable, exact market price for purchases from members was extremely complex, due to the wide range of different quality products and the seasonality that is characteristic of fruit and vegetables. These factors led to big fluctuations in agricultural prices and so a single market price could not be established.

Thus an alternative pricing method emerged: the theoretical settlement price or gross margin method. This consisted of the difference between income from sales made during the period and the cost of preparing, marketing and selling the cooperative's products (Vera, 1996). That is, we are talking about the net realizable value of the transaction. In this case, all profits from the sale would be directly transferred to the member by including them in the settlement price. The cooperative profit would be zero, since its income would equal the costs. On occasions, however, in order to avoid a non-existent financial profit and in order to self-finance the cooperative and ensure the provision of compulsory funds, when the sale-based cost price was established, the cooperative would subtract a sum from that sale price for the previous purposes.

As Vera states in his study, the thus determined theoretical settlement price would not be the sum received by the member. This would just act as a reference for setting final settlement prices, as decided by the governing body. However, establishing a theoretical settlement price for each commercialized product would force cooperatives to draw up

product-specific cost accounts, which always entail a certain degree of subjectivity, particularly with regard to the distribution of general manufacturing costs or indirect costs if the cooperative sells different products or product ranges. At the same time, settlement prices that were lower than other locally obtainable ones might leave members feeling dissatisfied, since they would hope to sell their goods at the best possible price. Given all of this, to determine real payment prices, the theoretical price received by the cooperative, estimated by making a detailed calculation of costs, and the mean payment price for the sector for the same period for the same product range would both have to be taken into account in order to avoid a lower settlement price.

At present, cooperatives themselves establish how much members are paid for supplies of goods, normally through their governing bodies. In Spain, by law, limits are only set when it comes to how they are calculated as an accounting expense in order to determine the cooperative profit/loss. Hence according

If we analyse the accounting nature of this expense, Spanish legislation is unanimous in classing supplies of goods or services by members to a cooperative as purchases, with the generation of a debt by the cooperative to its members. Specific accounting rules for cooperatives are also categorical in this respect. In reference to purchases of goods from members, rule 8 stipulates that the purchase price shall be taken as their value; that is, the sum either paid or pending payment for the said transaction. The purchase is entered in subaccount (605) "Purchases from members" and the corresponding change in stocks in account (617) "Changes in stocks purchased from members" at the close of the financial year. If the purchase price that is set is based on future circumstances, an initial estimate of the price is entered in the books and it is subsequently adjusted to reflect the real value that was paid.

Nevertheless, in our opinion, if supplies of goods by members are classed as purchases in the strict sense of the word, this focuses more on the financial aspect of the transaction rather than on its legal connotations. From a

appropriate, the costs of processing the acquired goods". In other words, if the cooperative paid the member the real payment price, the gross margin on the sale of goods purchased from the member would not remain in the hands of

tives Act, supplies of goods and services by cooperatives to members, whether produced by the cooperative or purchased from third parties, in order to fulfil the enterprise's social objectives will not be considered sales. Hence, if these supplies of goods are not considered a sale, they do not involve transfer of ownership from the cooperative to members. It is simply a question of the individualization of a set of goods that had hitherto been co-owned by members (Fajardo, 1997).

Having analysed the main income and expenditure items that make up a cooperative's accounting and financial profit/loss and highlighted their weaknesses, we will now propose an amendment to current accounting statements submitted by cooperatives. With this amendment, we intend the information reported in accounting statements to reflect the real financial profit/loss made by the cooperative, in line with the current concept of an comprehensive income. In this way, an analysis can be made of how efficiently a cooperative performs, neutralizing the effect of special relations between members and the cooperative.

The Adjusted Accounting Statements

In this paper, we propose

If we think about the location of this supplementary accounting statement, there are several possible options. One would be to include it as part of the Cooperative Social balance, since this contains information about the cooperative's financial and social performance. However, empirical evidence shows that cooperatives do not currently submit this

the financial year. As a result, we believe that the alternative profit and loss statement could be included as a specific section of this report.

A final possible location would be to incorporate it in a specific section of the Notes to the annual accounts. Legally, Notes to the annual accounts, must be drawn up and submitted by all cooperatives, regardless of the substantive law that applies. Consequently, this last option seems to be the best choice. Including an alternative profit and loss statement to the conventional one in the Notes to the annual accounts has a precedent in the 1990 Spanish General Accounting Plan¹⁶. The latter contemplates a specific section in the normal notes to the annual accounts for an analytical profit and loss statement, based on a model detailed in the plan.

Thus in this paper, we propose that a specific section should be added to cooperatives' notes to the annual accounts where this alternative profit and loss statement would go. The latter would reflect the real financial profit obtained by the cooperative, based solely on its financial activities under conditions of mutual independence with members. This surplus would therefore be prior to part of this profit being covertly shared out among members via favourable prices in commercial and business dealings with members. In this way, we would obtain useful information about how efficiently or effectively the enterprise performed and about its survival prospects in the future.

Conclusions

The problems surrounding the concept of

societies are socially responsible by their own definition and because they are found within the sector of social economy. In cooperatives, studies have been conducted regarding the measurement of social benefit using indicators that measure the aspects that are identified with fulfilling the Cooperative Principles established by ICA. One of the instruments cooperatives use to reveal this social responsibility is cooperative social balance. However, in Spain, the preparation and submission of a periodic social balance is not mandatory. To date, the Balearic Islands stands as the only autonomous community to call upon the Board of Directors to prepare and submit a social balance, although it is only established as compulsory if so expressed in the statutes. This Social Balance will have to establish the degree of fulfilment of the goals proposed, the degree of social participation, collaborations with other cooperatives, and contributions of the cooperative to the social environment, as well as providing a report concerning the strengths and weaknesses of the cooperative.

Current compulsory accounting statements do not fully reflect the financial reality of cooperatives. This is because they fail to offer a transparent vision of the financial profit derived from cooperative activities with members under conditions of mutual independence. In a covert way, cooperatives tend to share out part of the cooperative profit with members involved in cooperative activities. The cooperative accounting profit/loss for these transactions stands at almost zero.

Cooperatives should calculate the financial profit or loss before transferring the profit to members. This profit can be transferred to members in two ways: by remunerating them for supplies of goods and services at higher

prices than the market price or by subtracting the market price from the sale price of goods or services. This means that we have no reliable measure of how efficient or competitive the enterprise is and we cannot make comparisons with other enterprises from the sector. In addition, a cooperative with zero periodical earnings loses its ability to conserve its production capacity and service potential.

In order to obtain a measure of the cooperative's efficiency and effectiveness, we propose the calculation of a second financial accounting profit by the enterprise, which we term an adjusted financial profit or loss, in line with the cooperative value added account suggested by ICA Américas in its 1998 cooperative social balance. This adjusted financial profit or loss should form part of a new accounting statement that we suggest should be called an adjusted profit and loss statement.

If we pose the question of where this supplementary accounting statement should go, there are various possible alternatives. It could be included as part of the cooperative social balance or management report. However, in Spain, the drafting and submission of a cooperative social balance is not compulsory and the management report is only mandatory in certain self-governing regions. For this reason, we believe that it is more appropriate to include it as a specific section of the Notes to the annual accounts. The drafting and submission of this report is compulsory for all Spanish cooperatives, regardless of the applicable substantive law. Thus we would obtain useful information for assessing how efficiently and effectively the enterprise was run and its survival prospects in the future.

1

Bibliography

ACI-Américas. (1998) "Project of Cooperative Identity Balance" (In Spanish)

Boal Velasco, N. (2005) "What is the business result?". Analysis of a multidisciplinary concept". (In Spanish). Técnica contable n° 677 (July-August 2005)

Castaño, J. (1997) "Specificities in the accounts of the cooperatives"(In Spanish). Revista La sociedad cooperativa, n° 17. Editorial CISS.

Castilla Polo, J; Gallardo Vázquez, D. (2011) "Form and content of social disclosure in cooperative societies (In Spanish)". Paper presented at "XVI congreso de AECA". September 2011.

Cea García, J.L.

(1994). "The accounting result. Critical analysis of the bussiness economic surplus measurement" (In Spanish). AECA (Asociación española de contabilidad y administración de empresas). Monografías

(2005). "The conceptual framework of IASB accounting model: A critical look at the Spanish Accounting Reform" (In Spanish). CEF, Madrid.

Cordobés, M; Soldevila, P. (2006) "Adaptation of the general accounting plan to the cooperative societies. Analysis from the andalucian agrarian cooperatives" (In Spanish). Partida Doble n° 176

Fajardo García, I (1997) "The economic management of the cooperative: Liability of partners". (In Spanish). Editorial Tecnos.

Fernández Pirla, J.M^a (1977) "Economic theory of accounting. Book Introduction to the study of Economics". (In Spanish). Ninth edition. Ediciones ICE.

Gonzalo Angulo, J.A.

(1989) "Types of results in companies" (In Spanish), en La contabilidad en España en la segunda mitad del siglo XX. Extraordinary Volum edited on the occasion of the XL aniversario of Técnica Contable journal, Pgs 87-101.

(1996) "The proposal to "give value to the company reports" (MCRV): Possibilities of implementation in Spain of accounts at market value" (In Spanish). Ensayos sobre Contabilidad y Economía, in tribut to Professor Ángel Sáez Torrecilla, Vol. II. Edited by ICAC.

(2000) "Valuation and capital maintenance" (In Spanish). El marco conceptual para la información financiera.. Edited by. AECA. Pgs 225-261

Grau, M. (1997) "Legal and accounting treatment of transfers from domestic agricultural

AECA. Valladolid. September 2009.

Royal Decree 1514/2007 of 16 November, approving the General Accounting Plan. Published in BOE No. 278 of November 20, 2007. (In Spanish)

Royal Decree 1159/2010, of 17 september, approving the Standards for the Preparation of Consolidated Financial Statements and amending the General Plan of Accounts approved by Royal Decree 1514/2007 of 16 November and the General Accounting Plan for Small and Medium Enterprises, approved by Royal Decree 1515/2007 of 16 November. (In Spanish)

Requena Rodríguez, J.M. (1990) "The result of the firm" (In Spanish). Edited by Ariel Economía.

Sánchez Jiménez, S. (2002) "The cooperative sector from an administrative economic perspective: the particular case of the agrarian cooperativism" (In Spanish)