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# 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 loss[1], 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).

In order to achieve this aim, using a theoretical-descriptive methodology, we review, first of all, the different approaches or theories regarding profit or loss which have been followed in the relevant literature in this field, over the last centuries to the present day. Then we study the convenience of revealing cooperative social benefit in the interest of a possible measurement of corporate social responsibility.

Then, we discuss the current concept of a cooperative accounting profit or loss under Spanish legislation. Taking a descriptive approach, an analysis is made of the main items that affect this financial profit or loss: transactions with cooperative members. We recommend changes to the current notion of a cooperative accounting profit or loss, in order to find a way of reflecting the real financial result obtained by the cooperative from transactions with members under conditions of mutual independence.

Finally, we propose a new accounting statement, which we call an adjusted profit or loss statement. Aimed at offering a good insight into a cooperative's performance, it would supplement compulsory accounts.

## Historical Conception Of The Concept Of Profit Or Loss

On the whole, the concept of result (surplus) is defined as the consequence of an event or action. Thus, according to the dictionary of the Royal Spanish Academy of Language, the result is the "effect and consequence of an event, operation or deliberation". If we confine ourselves to the field of business, the concept of result is usually used to define what the aim of the economic activity carried out is. Yet this aim may be very different depending on the perspective it is seen from. There are authors who defend the idea that the aim of an economic activity focuses on achieving economic benefit, in the short or long term; others, however, advocate considering survival, over time, of the enterprise as the ultimate aim (we could mention authors such as Schmalembach, Zappa, Schmid, Chambers, among others,..2); in contrast, other lines of thought consider the main aim of an enterprise focuses on covering certain needs of the owners and/or society as a whole, needs which do not always need to be economic.

In the heart of Economic Theory, the concept of result (profit or loss) is not unique and is usually associated with the concepts of Wealth and Income. Adam Smith (1890) defined the concept of benefit as an increase in wealth. John Hicks (1939) stated in his famous book "Value and Capital" that, *a man's income is the maximum value which he can consume during a week and still expect to be as well off at the end of the week as he was at the beginning*. If we apply Hicks' definition to the field of business, the financial profit or loss over a certain period would be calculated as any difference between the net worth of an enterprise at the beginning of the period and its worth at the end of that period, without taking into consideration new contributions or reductions in capital made by the members. In accordance with this, financial profit or loss would represent, on the one hand the variation in net wealth of an enterprise (increase or decrease) as a result of the economic activity carried out and, on the other hand, the maintenance of the initial capital which entails the survival of the enterprise over time. Many authors belonging to the classical normative-deductive school have followed these utilitarian approaches. Among these it

2 See GONZALO ANGULO, J.A. (1989) "Types of results in companies" (In Spanish).

is worth mentioning Fischer, Marshall, Rivero Romero, Hendriksen or Solomons[3]. 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.

This same Professor, on speaking in his work about profit or loss and the relativity of benefit, proposes several restricting conditions to the distribution of economic benefits, which reinforce the aforementioned definition of profit or loss. These conditions can be summarized as follows:

- Before distributing benefits among members, the enterprise should make sure the necessary conditions to be able to obtain similar benefits in subsequent periods are maintained, while maintaining its productive capacity and service delivery.

- The liquidation value of the capital must be maintained in real terms, by correcting the amount of monetary depreciation incurred.

Hence, this gives strength to the theory that financial profit or loss consists of the variation in the net wealth of an enterprise, as long as the survival of the enterprise over time is also achieved with this.

Together with this idea, there have been many other theories regarding financial profit or loss, related with the assumption of risks, payment to the businessman for his/her initiative and decision-making or market imperfection, among other justifications[4]. Thus, in the course of the 20th century, different authors put forward their theories concerning profit or loss. Walker and Marshall, in the sixties, considered benefit was a reward for the businessman, because of the success of his/her business enterprise, whereby they related it to management salary. Along the same lines, Marx held in the first half of the 20th century, that the benefit obtained by a businessman was income this person had taken away from the working class. Meanwhile, Hawley (1907) defended the theory of risk, whereby benefit was a consequence of the assumption of risks and had an uncertain nature. Authors such as Clark (1956) reasserted the dynamic theory of profit or loss and related benefit with uncer-

3 In the paper of Sousa (2009) cited the paper of Fischer (1912) and Marshall (1947) and that of Boal Velasco cited the work of Rivero Romero (1995), Hendriksen (1974) and Solomons (1961).

4 Theories developed in the work of Boal Velasco, N. (2005) "What business is the result? Analysis of a multidisciplinary concept. (In Spanish). Edited by Técnica Contable.

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 accounting 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 solidarity 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, halfway 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-

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

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 statues, 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 it possible to plan, control and evaluate operations, aims and income on an internal scale, in each cooperative. Hence, Cooperative Social Balance will have to include both quantitative and qualitative indicators, which measure different aspects identified with the fulfilment of each cooperative Principle. In this sense, the Office of the Americas of the ICA drew up, in 1998, a Social Balance Project in which they proposed a series of social indicators to measure the fulfilment of cooperative Principles.

Within the Spanish legal framework, the Balearic Islands Cooperatives Act was innovative in this regard. We must remember that Spain is characterized by a plurality of regulations in terms of cooperatives, due to the faculty conferred on the Autonomous Communities in order to legislate through regional law cooperatives operating in their territory. Legislative power has been used in fifteen Autonomous Communities, with legislative developments still currently outstanding in the Canary Islands and Cantabria.

The Balearic Islands Cooperatives Act, in article 88, calls upon the executive board to prepare a Social Balance. This Social Balance will have to be presented before the Annual General Meeting in order for it to be made known and passed, along with the annual financial statements. As regards its contents, it will have to establish the degree of fulfilment of the aims that may have been proposed, the degree of social participation, collaborations with other cooperatives and all sorts of contributions, made by the cooperative to the social environment, as well as provide a report concerning the strengths and weaknesses of the cooperative. However, although from reading article 88 the obligatory nature of the preparation of the Social Balance is clear, article 85

7 For a deeper reading of the three methods, we can find in Castilla Polo and Gallardo Vazquez (2011).

of the same Law restricts this obligation only in the case that the statutes so provide. After consulting, along these lines, with several managers from different cooperative entities domiciled in the Balearic Islands and therefore subject to the rules of the autonomous community, we were able to observe that the standard practice of cooperatives domiciled in the Balearics is still not to prepare or submit this document.

However, even though the Cooperative Social Balance, as such, would make it possible to obtain information regarding certain social aspects of the cooperative, it would not give us any economic or proprietary information concerning the entity. This information is obtained from financial accounting, through the preparation of the annual accounts. Nevertheless, for many years, these accounts did not fully show the economic reality of cooperatives, as they were prepared within the scope of eminently capitalist accounting standards. In Spain, the accounting standards specific to cooperatives8, have managed to minimize these differences, by adjusting, as far as possible, economic event accounting to the specificities of this type of entity. However, there are still certain gaps, that is, economic operations that are not reflected in their entirety in the balance sheets, whereby the information obtained from them does not conform fully to the contribution they have really meant to the cooperative business.9 The Cooperative Value Added Account aims to provide a solution to the aforementioned issue. It was proposed in 1998 by ICA-Americas in their Cooperative Social Balance Project. The Value Added Account stands as an instrument that will calculate the total value increase generated in cooperatives, as a result of their economic activities, assessed at market value. On evaluating economic activities at market value, the effect caused on the profit or loss account by the special relations the cooperative has with its members is overturned.

The table below reflects the basis for calculating the cooperative added value proposed in the Cooperative Social Balance Project. We must note that both sales and purchases of products or services to/from members are corrected, in order to give them the real value they would have in the market if these operations had been carried out by a non-member third party.

| Calculation of cooperative added value (c.A.V) |
| --- |
| Actual Sales |
| + Sales associates Discounts |
| = Total Sales |
| + Financial Income |
| = Total Revenue |
| - Raw materials purchased from partners, valued at market prices |
| - Materials products purchased from unrelated third parties |
| - Production services purchased from non-members |
| ± Increases / decreases in inventories |
| - Depreciation and amortization |
| = Cooperative Added Value |

*Source: ICA-Américas. 1998*

8 ORDER EHA/3360/2010 of 21 December, approving the rules on the accounting aspects of cooperative societies (In Spanish).

9 By way of example, we could quote the trade relations of an agricultural marketing or consumption cooperative with its cooperative members. In an agricultural cooperative, members sell their products to the cooperative at prices higher than market prices in these conditions. This generates less profit for the cooperative, by increasing expenses and, therefore, covert distribution of surplus. Likewise, in consumption cooperatives, the cooperative sells produce to its own members at prices below market prices, whereby there is again an anticipated distribution of surplus, as the cooperative's income is lower than what it would have in market conditions.

We totally agree with this approach, proposed from the accounting profession[10], 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.

## A Cooperative's Periodical Accounting Profit Or Loss

Once stated the existence of two types of results, the financial profit and the social benefit, this section studies the financial profit obtained by cooperatives, exploring the process via which it is formed and the main items that it comprises.

In Spain, State Cooperatives Act 27/1999 and its counterparts in the self-governing regions establish that, when a cooperative's profits for the financial year are ascertained, the rules and criteria laid down in accounting regulations must be observed. These profits are broken down into three types[11]: the cooperative profit or loss, out-cooperative profit or loss and other profit or loss. The criterion used to differentiate among these three categories is the origin or destination of the transactions.

If the ultimate goal of this kind of enterprise - midway between a capitalist company and a not-for-profit-entities - is to meet the needs of its members, it makes sense for the legislator to wish to separate the financial profit derived from transactions with members (the cooperative profit/loss) from the financial profit based on other financial operations (the out-cooperative and other profit/loss). Transactions with members are the ones that justify a cooperative's existence.

Staying on the subject of Spain, according to legislation governing cooperatives in Spain's self-governing regions, the three kinds of financial profit should be shown separately in the accounts. However, through a cooperative's articles of association, certain laws allow, the three profits can be incorporated in one single financial profit[12]. Meanwhile, to ensure that fuller information is reported, under the 13th rule on accounting aspects of cooperative societies (Order EHA/3360/2010), the different financial profits must be shown in the annual report, drafted in accordance with a standard model, whenever required by law or, if necessary, in order to reflect a true and fair view. We would like to point out that by separating the three kinds of financial profits, cooperatives are able to take advantage of certain tax benefits, like lower tax on cooperative profits in comparison with the tax levied on out-cooperative and other profits.

The cooperative and out-cooperative profit or loss is determined by assigning income and expenditure to either the former or the latter, as appropriate. In the case of the cooperative profit or loss, special attention must be given to transactions with cooperative members, given their characteristics and frequency and also how their value is assessed. These transactions consist of deliveries of goods and ser-

10 ICA-Americas mentions in his paper on Social Balance, the experiences of Brazilian accounting sectors, or Swiss German, which already include the value added in Social Balances.

11 With the exception of Law 4 / 1993 'co-Euskadi speaking of a single total net surplus of the cooperative.

12 In particular, allow the joint accounting State Cooperatives Act, the law of Aragon, Asturias law, the law of Castilla y León, the law of Madrid and Murcia

vices by and for members, plus advances paid to worker members. These kinds of transactions are the very essence of a cooperative. Let us not forget that a group of individuals found a cooperative in order to meet a common need shared by all of them, and so a cooperative's raison d'être is rooted in this alliance among its members, formed so that they can benefit from this special market situation.

Thus part of the cooperative profit or loss is made up of income and expenditure directly related to cooperative activities. Consequently, in supplier or creditor cooperatives, when members sell their own products or services to a cooperative, the cost of a product's purchase from a member and income from its sale to end consumers both form part of the cooperative profit or loss. Meanwhile, in consumer or housing cooperatives, credit unions and cooperative insurance societies, because a cooperative sells products or services to its members, the cooperative profit/loss will include both income from sales of products to members and the cost of originally having purchased the product/service from a third party. Lastly, in the case of worker cooperatives whose members work there, following the same criterion, the cost of any work performed by members and income associated with that work also form part of the cooperative profit/loss.

Having defined the characteristics of these types of transactions, let us now analyse how to price them. Different studies have analysed whether it is appropriate to do so. At present, however, substantive legislation is responsible for determining their value.

### *Pricing goods supplied by members to a cooperative*

It is common practice for members to supply goods to a cooperative in many examples of this kind of enterprise. To give an example, in agrofood cooperatives, farmers who belong to the cooperative supply it with crops so that the latter can prepare, process and/or sell them. By doing this, advantage is taken of the economies of scale that are generated through this alliance, and farmers also increase their bargaining power by concentrating the supply. Through this alliance, members undertake to make their entire crop available to the cooperative in exchange for monetary remuneration. In accounting terms, problems arise when it comes to calculating the monetary sum to be paid to members for the sale of their products. This can be based on different parameters in accordance with legislation in the self-governing region where the cooperative is based (the current market price of the products, the net realizable value or else an independent price set by the parties) or as established in the cooperative's articles of association or decided by its governing bodies.

Existing doctrine on the subject contains different descriptions of settlement methods that can be used to determine the value of these supplies. The market-price criterion was the one conventionally contemplated in Spanish legislation up until the late 20th century. As Juliá (1985) states, the two sub-processes that are involved – the production and sale of goods – were used to separate this payment. The market price received by the member for the sale of goods to the cooperative would remunerate the harvesting process performed individually by this member. In contrast, his or her participation in the cooperative's periodical 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 to both Spanish State legislation and that of the self-governing regions of the Balearics, Castilla y León, Galicia, La Rioja and Murcia, when goods are purchased from members, the corresponding accounting expense may not exceed the real payment price, although legislation does not define what is understood by a real payment price. Other legislation, like that of Asturias, the Basque Country and Valencia, forbids the market value from being surpassed. However, legislation in Aragón and Navarre indicates that the market price should be used to calculate the accounting expense (neither going above nor below it). The remaining self-governing regions do not base this amount on any specific value, and so it is taken as the real price at which the products were sold.

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 legal point of view, we should analyse whether a transfer of ownership of the goods from the member to the cooperative takes place and decide whether, legally speaking, a sale/purchase transaction actually occurs. This issue has been a subject of discussion in doctrine on the matter and a further analysis will be made of the issue in a later paper.

Another point of interest is how to establish the accounting value of such purchases. According to accounting rules, the purchase price when the transaction is made must be taken as the value of goods purchased from members. This is defined as the price paid or pending payment for the transaction that has taken place13. This price can be set in advance or it can be dependent on future circumstances, such as the market price or net realizable value established at the end of the envisaged sales period. Legislation can also impose limits on the purchase price. These limits might be the real payment price or the market price. Regardless of whether or not the price is dependent on future circumstances or whether an upper limit has been set, an estimated price is entered in the books when the purchase is made, adjusting it subsequently as necessary. This procedure is followed by many agricultural cooperatives where members sell harvested products to the cooperative so that it can sell them on to end customers, paying members at the end of the season. In such an event, the estimated purchase price is recorded in the accounts when goods are purchased from members and this figure is adjusted at the end of the season, when the real price of the transaction is known.

In contrast with previous Spanish accounting rules, the new ones do not use the term "real payment price" but "net realizable value". However, self-governing legislation does talk about a real payment price, without defining what is meant by this. The only definition that we have been able to find to date was given in old rules on accounting aspects of cooperative societies. In rule 9 of the latter, on purchases of goods from members, the real payment price is defined in the same terms as what is known as the theoretical settlement price, gross margin or net realizable value, since it states that *"this value corresponds to the price of goods acquired from members and sold to third parties, once any costs that were required for this sale to be made have been deducted and, if*

13 See Standard Eighth ORDER EHA/3360/2010 of 21 December. (In Spanish)

*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 the cooperative. It would pass to the member as a higher purchase price. The following table shows the operations to be performed in order to obtain the real payment price.

| Calculation of Real Payment Price |
|---|
| + Revenue From Sale of Products |
| - Costs of Processing and Packaging Products<br>-Direct Costs<br>-Surchage for Indirect Costs |
| -Marketing Costs of Products |
| -Profit Margin Made by Co-operative |
| = Real Payment price of the partner |

*Source: own*

*This margin is usually close to zero in order to transfer the profit directly to the partners.

Consequently, we can see that whenever the real payment price is taken as the value of supplies, part of the cooperative profit is covertly distributed to members from whom the goods were purchased. In this case, the cooperative would simply act as a middleman, receiving no remuneration as such or just a minimal amount14. The cooperative accounting profit/loss would be zero.

However, if we analyse the underlying social rationale behind the transaction, we can conclude that the cooperative would have benefited from a social point of view. It would have covered the needs of its members by placing their goods on the market at the maximum possible price, with the enterprise assuming all the costs of acting as middleman in the process. As for the financial rationale behind the transaction, despite the cooperative having a zero accounting profit, we think it would have made a financial profit. This is because, in reality, the enterprise has sold goods to third parties at a gross margin, even if this margin is transferred to its members. In this case, the profit and loss account would not reflect the cooperative's true financial profit or, as stated by Sánchez Jiménez in his paper (2002), *occurrences during the financial year, thus making it impossible, on many occasions, to assess the cooperative's performance.*

According to Sánchez Jiménez, another consequence of this drop in the accounting profit through the covert distribution of profits to members is the lesser emphasis given to self-financing through the provision of reserves and to the distribution of profits, compared with similar operations by trading companies.

Thus if in its profit and loss account, the cooperative presents a lower accounting profit than the one it really made, less capital will be injected into its reserves and less corporate tax will be due. This could endanger the survival of the enterprise if the cooperative assigns all its cooperative profits to members rather than using them for self-financing purposes through the provision of reserves.

One of the constraints that Professor Fernández Pirla (1977) imposes on the distribution of profits among members is the need for the enterprise to be able to continue making a similar profit in subsequent financial years, while also conserving its production capacity

14 Law 4/2001 of cooperatives of La Rioja, in his art. 71 assesses the accounting expense of delivery of goods to members as actual settlement price.

or service potential. The covert distribution of profits to members before capital is injected into a cooperative's reserves does not guarantee the maintenance of its production capacity.

Nonetheless, because purchases of goods from members are associated with the cooperative profit/loss, this is the only financial result that is negatively affected by this covert distribution of profits to members. The out-cooperative profit/loss and profit/loss from non-cooperative activities will remain unchanged, and so the provision of reserves, distribution of profits and payment of corporate tax will mainly come from these last two profit/losses. Even so, we do not believe that this will necessarily guarantee the survival of the enterprise, since these two financial profits are significantly lower than the cooperative profit/loss. If we bear in mind the fact that the cooperative's main activities revolve around commercial and working relations with members, then the extra-cooperative profit/loss and the profit/loss from non-cooperative activities are the least important part of the total financial profit. Sometimes this is because they amount to less than the cooperative profit/loss and, on other occasions, because these financial profits are based on non-habitual or extraordinary transactions.

In our opinion, if cooperatives pay members the net realizable value, they should draw up an alternative and/or supplementary profit/loss account to the one based on accounting rules, showing the true financial profit that was obtained and how part of this has been transferred to members as payment for supplied goods. In a later section of this paper, we propose an alternative profit and loss account that contemplates this issue.

*Employment services by worker members.*

According to the Spanish State Cooperatives Act (Art. 80), advances to members (anticipos societarios) are regular considerations paid to worker members over periods of no longer than a month, depending on their involvement in cooperative activities. Through this mechanism, members receive monthly remuneration for their work, without having to wait for the patronage refund to be shared out. In many cases, worker members also often receive a percentage of the profits made by the enterprise.

Legally, these payments are not considered to be wages, since they are the result of corporate and not labor relationship (Polo, 2003). However, substantive legislation classes these advances as expenses for the purposes of calculating the profit/loss for each financial year, as they constitute staff remuneration for employment services performed during the financial year. Accounting legislation also classes advances to members as staff expenses, thus lowering the accounting profit/loss for the financial year.

In the case of worker members, a similar situation can be posed to that outlined in the case of agricultural cooperatives. The sum paid by the cooperative to its members as an advance can be adjusted each period in order to distribute corresponding amounts of the cooperative profits to worker members and work associates, in such a way that the profit and loss account shows a cooperative profit/loss for the financial year equal or close to zero. Using these advances as a profit sharing method once again raises the issue of a lower provision of reserves, less distributed income, and lower corporate tax costs than the cooperative would have if the real financial profit were calculated.

Let us remember that, in other cases, the final remuneration received by members for cooperative work, is made up of two things: first, advances received during the financial year and, secondly, an additional sum dependent on the profit obtained during the said year. How to account for this additional amount, taken from the profits for the financial year, has been the object of debate by different authors. In his doctoral thesis, Polo (2003) states that if the distribution of part of the surplus available for worker members stems from a member entitlement regulated in the articles of association or agreed upon by a General Assembly, this sum would, in accounting terms, be considered a wage expense. If not, it would be classed as a distribution of the surplus. On the other hand, current accounting legislation merely says that fixed or occasional remuneration for work by worker members will be considered staff expenses, and that, insofar as they constitute payment of a service assignable to a certain financial year, advances will be considered an expense for the financial year, concluding with the words, "without prejudice to final remuneration for worker members or associate workers being quantified on the basis of the financial profit/loss for the financial year, in accordance with what is established in the articles of association or upon agreement of a General Assembly". Thus, as we see it, compulsory remuneration paid to members at the end of the financial year will be classed as staff expenses and not as a distribution of the surplus, as occurs with the patronage refund, even though this compulsory remuneration is based on the financial profit/loss for the financial year.

### *Income from transactions with members*

This consists of payment by members in exchange for supplies of goods or services by the cooperative. These transactions tend to be typical of consumer, housing or purchasing cooperatives, credit unions and cooperative insurance societies. According to Spanish accounting legislation, the value of this income is determined and it is entered in the accounts by offsetting all costs. We understand offsetting costs not just to include the cost of purchasing the goods but also the part corresponding to general expenses; that is, without incorporating the profit margin on the transaction. Thus enterprises that only engage in sales operations to members and not to third parties would have a zero accounting profit/loss. As commented previously, this could endanger the survival of the enterprise and the maintenance of capital by not guaranteeing the necessary reserves for its stability or security.

Another problem that might emerge is the setting of a sales price to members. On occasions, the cooperative is still not fully aware of the purchase costs of products when they are sold to members and even less sure of any general expenses needed to calculate the corresponding amount. Think, for example, of the case of suppliers with whom payment is settled just once at the end of every month, instead of paying purchase by purchase. In such cases, we believe that the cooperative should make an estimate of the cost, sell the products to members at this estimated cost, and make any adjustment when the total expense is known.

Lastly, let us remember that it is not fully appropriate to talk about sales of products to members, since, according to Additional Provision 5.2 of the Spanish State Cooperatives 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 a supplementary profit/loss account in addition to the official one, reflecting the real financial profit obtained by the cooperative before part of this profit is transferred to members. For this purpose, we will take into consideration the functional accounting statements proposed by Socías (1995) in his study. In order to facilitate accounting analyses, the said author proposed certain modifications or adjustments to yearly accounts drawn up in accordance with current legislation. Thus, depending on the specific objective of the intended accounting analysis, the accounting statements would be prepared either one way or another.

Before we look at how to draft this new adjusted profit and loss account, we must first reflect on commercial relations between cooperatives and their members. Do not forget that one of a cooperative's main objectives is to meet the needs of its members. In some cases, these needs consist of sales of produced goods, without having to pay the cost of a middleman. In others, cooperatives give members access to the labour market and, in the case of consumer cooperatives, certain products of specific characteristics can be bought or else they can be purchased at lower prices. Consequently, by identifying the accounting subject of operations, we can choose between one of two options: we can consider the members and the enterprise to be one single financial unit or else to be two different financial units.

In the first case - that is, if the members and the cooperative were to form a single financial unit -, operations would be performed as if there were one single accounting subject. If we believe that a cooperative's ultimate goal is to cover certain member needs, it might simply be regarded as a vehicle for members to gain access to a market, and so the members and enterprise would take the form of a single financial entity. On the other hand, they might be regarded as two different entities, even if they do not act under conditions of mutual independence. How internal commercial transactions between members and the enterprise are assessed will vary, depending on the option that we chose.

If the members and the cooperative are regarded as a single financial unit, we might, by analogy, apply the full consolidation method established for internal transactions among group companies[15]. This eliminates the financial result of internal operations, deferring it until it is achieved with third parties from outside the group. In the case that concerns us, if we were to adopt this alternative, we would not enter the cooperative's commercial transactions with members into the accounts. Let us think, for example, of an agricultural cooperative. We would limit ourselves to recording the profit from products or services sold to end customers by the cooperative, without entering the purchase of the goods from members by the enterprise.

On the other hand, if we consider that the members and the cooperative form two different financial units, it would make sense to enter internal commercial operations into the accounts. However, as we see it, taking the cost value or net realizable value, whenever required by law, and thus transferring the total profits from the operation to members would not give us a reliable measure of how efficiently the enterprise performed. Compulsory accounting statements drawn up under these premises do not offer an insight into a cooperative's performance and neither can comparisons be made with other enterprises from the sector. For this reason, we propose an alternative profit and loss account to current compulsory accounting statements. This new statement must reflect the true financial profit obtained from the cooperative's financial activities under conditions of mutual independence; that is, without bearing in mind special commercial relations between the cooperative and its members. Hence all remuneration received by members over and above the market price or reasonable value of goods and services supplied to the cooperative will be a profit obtained through management of the cooperative, and so an accounting statement must be drawn up that acknowledges this result in order to be able to assess how efficiently and how effectively the cooperative is run.

In order to achieve this alternative profit and loss account, we will start out from the abbreviated profit and loss statement drafted in accordance with current Spanish accounting regulations. We will make a series of adjustments to it in order to obtain the cooperative profit/loss from the enterprise's financial activities, once the effect of special commercial and labour-related relations with members has been neutralized. Thus in this profit and loss statement, a special breakdown is needed of items relating to purchases of goods or services from or by members. A profit and loss statement featuring this information might look like the one presented in the following table, where proposed modifications compared with the model drawn up in the annual accounts are shown in bold:

15 In Spain, see art. 42 of Royal Decree 1159/2010 of 17 September, approving the Regulations for the Preparation of Consolidated Financial Statements.(In Spanish)

## Adjusted Profit And Loss Account

*Adjusted to calculate the result without taking into account the special conditions with partners*

1. Net turnover.
   - *a) Sales to associates.*
   - *b) Discount applied to sales partners on market price.**
   - *c) Other sales and services to non-members.*
2. Changes in inventories of finished goods and work in progress .**
3. Work performed by the cooperative with its internal structure.
4. Supplies.*
   - *a) Consumption of stocks partners **
   - *b) Excess over market price paid to members for buying stocks*
   - *c) Other supplies.**
5. Other operating income.
   - *a) Income from transactions with shareholders.*
   - *b) Discount applied to other income of partners on market price .**
   - *c) Other income.*
6. Staff costs.*
   - *a) Work Services partners.**
   - *b) Excess of fair market compensation, paid to partners..*
   - *c) Other staff costs.**
7. Other operating expenses .*
8. Depreciation and amortization .*
9. Allocation of grants and other non-financial assets.
10. Excess supplies.
11. Impairment and loss on disposal of fixed assets .**
12. Fund for Education, Training and Promotion.
    - *a) Endowment.*
    - *b) Grants, donations and grants and sanctions.*

**A) Adjusted Operating Income**
(1+2+3+4+5+6+7+8+9+10+11+12)

*(cont.)*

13. Financial income.
    - *a) Partners.*
    - *b) Other financial income.*
14. Financial expenses.*
    - *a) Interests and mandatory return of capital contributions and other qualified funds with characteristics of debt.*
    - *b) Other financial expenses.*
15. Change in fair value of financial instruments. **
16. Exchange differences. **
17. Impairment and loss on disposal of financial instruments. **

**B) Financial Income (13+14+15+16+17)**

**C) Adjusted Profit Before Tax (A+B)**

18. Taxes on profits. **

**D) Economic Result For The Year Adjusted(C + 18)**

*Source: own*

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 accounting statement since it is not mandatory. Consequently, we believe that it would be more appropriate to include it in other accounts that are compulsory. We are talking about the Management Report and Notes to the annual accounts.

Spanish substantive legislation governing cooperatives establishes that, in most cases, it is compulsory for a Management Report to be drafted and submitted. Both state legislation and the laws of seven self-governing regions establish that cooperatives must periodically submit a Management Report to the competent registry, together with annual accounts for 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 result (profit or loss) have been dealt with by several authors in recent times. In the heart of Economic Theory the concept of profit or loss was related with that of wealth and income, consisting of the variation in the enterprise's net worth, providing the survival of the enterprise over time is also achieved. On the other hand, there was also another line of thought that considered profit or loss as the satisfaction of certain needs of members, whereby economic profit or loss was seen as a means to cover the proposed goals. On the other hand, current doctrine is unanimous in stating that financial profit or loss is a subjective, relative concept. Current tendencies in the conception of corporate profit or loss are framed in the concept of comprehensive income, which is defined as all the changes in net worth over a certain economic period, by eliminating the operations performed with the owners. Along these lines, in this paper, we have aimed to conduct a critical review of the current concept of profit or loss in cooperatives.

Cooperatives are classified as the type of enterprises in which ultimate surplus is not the simple achievement of economic benefit, but rather of also covering the needs of its members, whether economic or otherwise. In this regard, it is worth considering the existence of two types of profit or loss in cooperatives, financial profit or loss, measured exclusively as the difference between income and expenses incurred over the period and, on the other hand, social benefit, as a measurement of the achievement of the social goals established by the members. These two profits or losses are not mutually exclusive, but rather complementary.

Measuring cooperative social balance is in line with the concept of corporate social responsibility. This social responsibility is inherent to the very essence of cooperatives. Cooperative

16 Approved by Royal Decree 1643/1990 of 20 December. Currently repealed by entry into force of the General Accounting Plan 2007, approved by Royal Decree 1514/2007 of 16 November.

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.

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