

# How member economic participation is accounted and reported?

**2018 Experts Meeting on Co-operative Accounting and Reporting: Co-operative**

**Socio-economic Transformation**

**June 25-26, 2018 (London, UK)**

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## **Third cooperative principle of the ICA, “Member Economic Participation”:**

“Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. **Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership**” (ICA, 1995).

## **How member economic participation is accounted and reported in the financial statements?**

**Member economic participation is regulated:**

- **At national level (different national regulation, cooperative law, etc.)**
- **Inside national level:**
  - **Regional regulation**
  - **Industry, cooperative branch (agricultural, worker, etc.)**
- **At cooperative firm level (Statutes)**

**Cooperatives around the World apply different accounting standards:**

- **Local/National GAAP (including US GAAP)**
- **IFRS**

## **How member economic participation is accounted and reported in the financial statements?**

**Producer cooperatives (f.e. Agricultural):**

- **Members supply goods to the cooperative.**

**Worker cooperatives:**

- **Members provide work.**

**Consumer cooperatives:**

- **Cooperative supplies / provides goods or services**

<b>Producer cooperative / Worker cooperative</b>	<b>Consumer cooperative</b>
<ul style="list-style-type: none"> <li>● Full economic reward to the member as distribution of profit</li> </ul>	<p>NA</p>
<p>Full economic reward as an expense recognised in the profit and loss account</p>	<p>Full transaction is considered as a sale recognised in the profit and loss account. Therefore, patronage dividend as an adjustment of the initial prices</p>
<p>The economic reward to the member is splitted in:</p> <ol style="list-style-type: none"> <li>1) An expense</li> <li>2) Distribution of profits (named patronage dividend, patronage refund, “retornos cooperativos”, “ristournes”).</li> </ol>	<ul style="list-style-type: none"> <li>● The full transaction is splitted in:             <ol style="list-style-type: none"> <li>1) A sale</li> <li>2) Distribution of profits (named patronage dividend, patronage refund, “retornos cooperativos”, “ristournes” or a intermediate result in the P&amp;L account (UK)</li> </ol> </li> </ul>

## IMPLICATIONS

- **How to measure the performance of the cooperative? How to compare?**
- **Accounting numbers should be adjusted according to the purpose of the analysis**
- **Accounting standards can misunderstand the economics of the cooperative. In fact, they do:**
- **The case of IFRS 15 “Revenue from contracts with customers” and patronage dividend in UK → Impacts not only for members, also outsiders. F.e. What is the impact on risk measures as the ratio net income before interest and taxes to interest expense?**
- **What about the FASB mirror standard in USA (Topic 606 1“Revenue from contracts with customers”)? Why is it not an issue for American cooperatives?**

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# LAND O`LAKES, Inc 2015 (USA)

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31 (\$ in thousands)	2015	2014	2013
Net sales	\$13,007,704	\$14,693,546	\$13,977,662
Cost of sales	11,620,485	13,444,419	12,751,382
Gross profit	1,387,219	1,249,127	1,226,280
Selling, general and administrative	1,055,466	976,677	905,371
Earnings from operations	331,753	272,450	320,909
Interest expense, net	55,612	63,160	62,556
Other (income) expense, net	(14,288)	(2,799)	1,393
Equity in earnings of affiliated companies	(46,817)	(52,365)	(44,247)
Earnings before income taxes and discontinued operations	337,246	264,454	301,207
Income tax expense (benefit)	39,315	13,410	(4,693)
Net earnings from continuing operations	297,931	251,044	305,900
Net earnings (loss) from discontinued operations	6,259	15,666	(278)
Net earnings	304,190	266,710	305,622
Less: net (losses) earnings attributable to noncontrolling interests	(3,370)	215	(331)
Net earnings attributable to Land O'Lakes, Inc.	\$307,560	\$266,495	\$305,953
Applied to:			
Allocated patronage	\$184,844	\$178,293	\$184,621
Retained earnings	122,716	88,202	121,332
	\$307,560	\$266,495	\$305,953

See accompanying notes to consolidated financial statements.





# MIDCOUNTIES 2015-16 (UK)

	Note	2015/16 Before significant items £'000	2015/16 Significant items £'000	2015/16 Total £'000	Restated* 2014/15 Before significant items £'000	Restated* 2014/15 Significant items £'000	2014/15 Total £'000
Revenue	1	926,705		926,705	910,000		910,000
Cost of sales		(680,815)		(680,815)	(668,161)		(668,161)
Gross profit		245,890		245,890	241,839		241,839
Operating expenses	2.1/2.2	(230,371)	118	(230,253)	(222,465)	(307)	(222,772)
Operating Profit		15,519	118	15,637	19,374	(307)	19,067
Finance costs	2.3	(4,940)		(4,940)	(5,349)		(5,349)
Profit before payments to and on behalf of members		10,579	118	10,697	14,025	(307)	13,718
Payments to and on behalf of members	2.4	(4,286)		(4,286)	(4,537)		(4,537)
Profit before tax		6,293	118	6,411	9,488	(307)	9,181
Income tax expense	2.5	(1,832)	193	(1,639)	(2,766)	571	(2,195)
Profit for the year		4,461	311	4,772	6,722	264	6,986
<b>Other comprehensive income</b>							
Items that will not be reclassified to the income statement in future periods:							
Revaluation gain / (loss) of property, plant and equipment				501			(2,340)
Remeasurement of defined benefit liability	4.4			13,189			(25,540)
Income tax on other comprehensive income	2.5			(4,195)			5,777

