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Comparative Analysis on Two Accounting Systems of Rural Economic Originations

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Abstract In order to normalize the financial account of two kinds of economic organizations, the comparative analysis is conducted on the *Accounting System of Village Collective Economic Organization* and *Accounting System of Farmers' Cooperatives (Trial)* issued by the Ministry of Finance. The comparison points out that application and accounting principles of the two kinds of accounting systems are different. The differences and similarities of the five accounting elements are analyzed including property, liabilities, rights of owners, costs and profits and losses, as well as the reasons of the differences and similarities. Results show that both of the two accounting systems reflect the principles of simplification and clarification. The village collective accounting system works in rural village committee, which acts the administrative duties, the features of concerted benefits of it is showed. While the accounting system of farmers' cooperatives is based on the village collective accounting system and combines the norms of accounting system of enterprises, so the system represents the demands of collaboration and profit-making.

Key words Village collective economic organizations, Farmers' cooperatives, Accounting system, Differences and similarities, China

At present, there are two principal economic organizations, village collective economic organization and farmers' cooperatives, in the development of Chinese rural economy. The accounting systems adopted by them respectively are *Accounting system of Village Collective Economic Organization* implemented on January 1st, 2005 and the *Financial Accounting System of Farmers' Cooperatives (Trial)* carried out on January 1st, 2008. The two financial systems are used to normalize the development of rural economic organizations and managed and supervised by financial department and directed and supervised by rural operation department, so some rural financial officers treat them indiscriminately, especially the farmers' cooperatives, which have not established professional financial officers. Members in the farmers' cooperatives entrust the accountants in the village to record accounts and the accountants are easy to mix the two accounting systems. Therefore, it is necessary to discriminate the two systems to better understand them and use them.

1 Different application status and accounting principles of the two accounting system

The *Accounting system of Village Collective Economic Organization* suits the community-featured collective economic organizations established by villages and villagers' groups^[1]. The accounting demands "using accrual-basis accounting". *Financial Accounting System of Farmers' Cooperatives (Trial)* suits farmers' cooperatives with legal persons and it protects the legal rights of farmers' cooperatives and its members^[2]. Its accounting demands "accepting accrual-basis accounting". The village-level organization is the most grass-root democratic management organization in China and it has to develop rural

economy, the *Accounting system of Village Collective Economic Organization* has dual functions. Amid taking economic development as the main body, the system is applied in accounting of villagers' committee and it takes the responsibility of community management, so the use of accrual-basis accounting is demanded in accounting, but the possibility of using cash-basis accounting can not be exempted. Whereas, the main body of *Financial Accounting System of Farmers' Cooperatives (Trial)* is legal persons, so the accrual-basis accounting is a must.

2 The differences and similarities of the stipulated accounting elements

2.1 The differences and similarities of the capital accounting *Accounting system of Village Collective Economic Organization* stipulates that the assets of village collective economic organization is divided into current assets, agricultural assets, long-term investment, fixed assets. The current assets include cash, bank deposits, short-term investment, receivables and inventory. In the meantime, the note has explained that if there are intangible assets in village collective economic organization, the item of "intangible assets" can be established. However, in the *Financial Accounting System of Farmers' Cooperatives (Trial)*, the assets of farmers' cooperatives are divided into current assets, agricultural assets, investment abroad, fixed assets and intangible assets. The current assets cover cash in hold, bank deposit, receivables and inventory. It can be seen that the two systems are similar in terms of dividing assets and the ensuing specific analysis will focus on the differences of the accounting items.

2.1.1 The same items of the specific contents of accounting. The two accounting systems all target at rural economic organizations, so the establishment and accounting of relevant items should be simple, concise and easy to be understood by farmers, besides, the agriculture-related economic businesses

should be given priority to. In the two accounting systems, most items and accounting contents are similar in the account of assets. The major items are banks deposits, receivables, assets of livestock, assets of forests, fixed assets, accumulated depreciation, disposal of fixed assets, intangible capital and so on.

2.1.2 The items with different accounting contents.

2.1.2.1 Cash in hold. As for cash in hold, the *Accounting system of Village Collective Economic Organization* use "cash" as accounting item, but *Financial Accounting System of Farmers' Cooperatives (Trial)* adopts the item of "cash in hold". Except for that, the accounting method and scope are all the same. The reason is that in the past, China stipulated that the cash, which is deposited in the financial department of a unit, managed by cashier and used as everyday expenses, should adopt the item of "cash". But in 2006, in order to keep abreast of international accounting standards, China changed the "cash" into "cash in hold". The two systems were stipulated and implemented in 2005 and 2007 respectively, so the names of the two items are different.

2.1.2.2 Receivables. In order to discriminate the accounting of individual and each item of receivables and advance payments, the two accounting systems set two items. The *Accounting system of Village Collective Economic Organization* establishes the "receivables" and "internal exchange", and the *Financial Accounting System of Farmers' Cooperatives (Trial)* establishes the items of "receivable" and "personal exchange". Among the items, the "receivables" accounts each receivables and advance payments of village collective economic organization or other units and individual and it refers to the debtor-creditor relationship between accounting main body and the outer. As for the debtor-creditor relationship between internal unit and individual, the later system sets up the "internal account" and "personnel account". The former system sets up "internal account" to let farmers easy to understand, which reflects the principle of concise; the later system sets up the account of "personnel account", which fully displays the features of farmers' cooperatives and the demand of farmers' cooperatives. The farmers' cooperatives stipulate that the exchange between farmers and farmers' cooperatives should set up accounts according to rural households, and the second-time distribution of profits of farmers' cooperatives should be based on trade capacity and trade volume^[3], so the economic exchange between farmers' cooperatives and members of the cooperatives forms the debtor-creditor relationship to account.

2.1.2.3 Inventory. The *Accounting system of Village Collective Economic Organization* sets up the account of "inventory" to account the seed, fertilizer, fuel, pesticide, raw materials, machinery spare parts, low-value consumption goods, agricultural products and industrial finished goods owned by village collective organization. The establishment shows the principle of simplification and is easy to be understood by farmers. The later system sets up the account of "products and materials" to account the seeds, fertilizers, fuel, pesticide, raw materials, machinery spare parts, low-value consumption goods, agricul-

tural products and industrial finished products and so on owned by the farmers' cooperatives. Besides, as the bridge connects enterprises and rural households, the situation of selling goods on commission and purchasing goods on commission often happen in farmers' cooperatives. The later system also sets up "consigned processing material", "consigned goods selling", "consigned goods purchasing" and "entrusted goods purchasing" and some other accounts, which fully reflects the practical mindedness.

2.1.2.4 Investment abroad. The former system establishes the items of "long-term investment" and "short-term investment" according to the term of investment abroad of village collective. The "short-term investment" accounts various volatile stocks, bonds and other valuable paper that will be cashed in less than one year (one year is excluded) purchased by village collective economic organizations^[1]; "long-term investment" accounts the investment that will not be cashed in less than one year (one year is excluded), which includes stock, bonds and enterprises built by village collective economic organization^[1]. The later system builds the "investment abroad" for the abroad investment of farmers' cooperatives to account the stocks, bonds and enterprises of farmers' cooperatives^[2]. Besides, when investing abroad by using the physical assets, the two systems handle the premiums and discounts discriminately. The village collective conducts long-term investment by the way of physical assets (including livestock and forests and it set the prices and record the value of investment abroad according to contracts and agreements, but the differences between the value of physical assets and carrying value in the contracts or agreements are recorded under the item of "accumulation fund". It displays the collection ownership and public welfare features of village collection.

2.2 The differences and similarities of liabilities accounting *Accounting System of Village Collective Economic Organization* stipulates the liabilities of village collective economic organization are divided into floating liabilities and long term liabilities, among which floating liabilities include short term debts, sum payable, wage payable and welfare payable; the long term liabilities include long term debts, sum payable and flexible funds. Although there is no item of "special funds", with the nation's fiscal input on three agriculture and new village construction, the village collective economic organization can set the item of "special funds" if it accepted the funds appropriated by the government for special uses, to reflect and supervise the uses of special funds of village collective economic organization^[1]. But *Financial Accounting System of Farmers' Cooperatives (Trial)* divides the liabilities of farmers' cooperatives into floating liabilities and long term liabilities, among which floating liabilities include short-term liabilities, sum payable, wage payable, return of surplus payable, surplus payable; the long term liabilities include long term debts and special sum, payable. So the two systems are similar to the establishment of liabilities.

2.2.1 The items of liabilities accounting of same specific contents. In the two systems, the items and accounting contents of liabilities accounting that same to each other are short-term

debts, debt payable, wage payable, special fund and so on. Short term debts account the debts with less than one year's term (including one year) of village collective economic organizations and farmers' cooperatives borrowed from banks, rural credits, related units, individuals; sum payable accounts the sum payable and temporary sum with the payment term at less than one year (including one year) generated by village collective economic organization and farmers' cooperatives with external units and individuals; wage payable accounts the total rewards which should be paid to the management personnel and staffs in the two kinds of economic organizations, which include wages, bonuses, subsidies and welfare subsidies; the special funds account the funds provided by the nation to use as special use accepted by the two kinds of economic organizations.

2.2.2 Items with different contents of liability accounting.

2.2.2.1 Item of welfare payable. This item accounts the interests extracted collective economic organization used for collective welfare, education and culture, hygiene; the expenses include the expenses on taking care of soldier's dependants, "households enjoying five guarantees (childless and infirm old persons who are guaranteed food, clothing, medical care, housing and burial expenses)", poor rural households, birth control; farmers' medical expenses, maintenance allowance and consolation money. But the expenses on building collective public infrastructure are excluded. The item reflects the relief, management and public welfare of village collective economic organization. But in the accounting system of farmers' cooperatives, there is no such item.

2.2.2.2 The items of long term liabilities and sum payable. The items account the sum payable with the deadline of more than one year (excluding one year) borrowed by the village collective economic organization from banks, credit cooperatives, related units and individual, but farmers' cooperative only set up the item of "long term liabilities" for the liability businesses.

2.2.2.3 The item specially established by village collective—flexible funds. The village collective has the functions of public welfare and management, so when the village collective starting industrial and public welfare, it should collect special funds according to the businesses. After getting the approval of villagers' committee, the village collective collects money from villagers and forms the liabilities. The capital collected will transfer to public accumulation fund to serve all the villagers. The establishment of the item indicates the major aims of the accounting work of village collective are conducive to helping members in the village collective economic organizations to realize democratic finance and to let them know the management status of village collective economic organization to achieve financial transparency.

2.2.2.4 The special items of accounting system established by farmers' cooperatives—return profits payable and profits payable. The farmers' cooperatives stipulate that the profits after making up the losses and extracting public funds, are the disposable profits. The disposable profits should be allocated to the members according to the following regulations and the specific allocating methods determined by operation norms and

membership meeting. Firstly, the profits should be returned according to the proportion of members and the transaction volume of the cooperative and the aggregate sum returned should not surpass 60% of the total disposable profits; secondly, the surplus left after returning according to the former stipulation should be distributed to members in the organizations according to the average sum of capital contribution, public welfare fund, national subsidies and other donations^[3]. In order to implement the regulation and show the mutual economic organization feature of farmers' cooperatives, the accounting system sets up two items of "return profits payable" and "return surplus payable". The item of "return profits return" accounts the profits returned to members according to the proportion of members and transaction volume and the profits returned to members should lower than 60% of the disposable profits. The item of "return surplus payable" accounts the capital contribution and public welfare fund and the organization accepts the national direct surplus and other people's donation.

2.3 The differences and similarities of the accounting of ownership interests The former system stipulates that the ownership interest of village collective economic organization includes capital, public welfare fund, and undistributed interests and so on. The later stipulates the ownership interests of cooperatives include stocks, special fund, capital surplus, surplus reserves and undistributed surplus and so on. The two are different in contents and name of ownership interests.

2.3.1 The accounting on the capital input by owners is different. When accounting the investment received, the former set up the item of "capital", to evaluate the capital of investors according to the related regulations. Due to the actual situation of rural areas, farmers may use work to instead wage, so the village collective should accept labor investment and record the capital according to the local labor prices. When accounting the investment accepted, the later applies the item of "stock" and asks the farmers' cooperatives to determine and record the capital invested by the members. The capital accepted by farmers' cooperatives should be recorded to relevant capital according to the value approved by both of the two parties. The capital should be recorded into stock according to the members' share of registered capital of the cooperatives. The odds of the approved value and the share of registered capital of farmers' cooperatives are recorded to public capital accumulation item. Farmers' cooperatives do not accept labor capital^[2]. It can be seen that, the later has the characteristic of enterprises and it lays stress on the union of capital.

2.3.2 The accountings of newly added capital and making up losses of owners' public accumulation after investing economic organizations are different. The former accounting system sets up the item of "public welfare fund" and the later sets up the item of "surplus accumulation". Under the different items, the accounting scope varies as well. The item of "public welfare fund" of village collective not only accounts the profits extracted from the profits of the very year according to the proportion, but also accepts the interests donated by the outsiders. Besides, the rural collective land may be expropriated and the land may

be auctioned, the compensation should also be recorded under the item. As for the long term investment of the village collective by the form of material capital, the losses and discounts after the reevaluation of the capital should also be recorded under the item. But the item of "public surplus accumulation" of farmers' cooperation only accounts the profits extracted from the local benefits according to the proportion. Obviously, the "public welfare fund" of village collective covers the part of the contents from the items of "public profits fund", "special fund" and "capital accumulation" of farmers' cooperatives. Taking the actual situation of rural areas into consideration, the accounting items should be simplified and easy to be understood. However, except for adding capital and making up losses, the public fund can be used by village collective to make up for the inadequate welfare and by farmers' cooperatives as annual dividend.

2.3.3 The accounting of national financial subsidies and external donate are different. The former sets up the item of "subsidy income" for various kinds of subsidies provided by the state. As for the donate from others, the former includes its in the item of income and rights and interests and sets up the "public welfare fund" to account them. But the later accounting system integrates the item of "special fund" to account the rights and interests.

2.3.4 The accounting of the form of local profits and the distribution is different. The former sets up the items of "local interests" and "profit distribution" and the later sets up the items of "surplus for the year" and "surplus distribution". Although the items are different, the accounting contents and methods are basically similar. "Profits for the year" and "surplus for the year" are all the income and expenses happened in each period to transfer to the account and then account their results. But "profit distribution" and "surplus distribution" are all the distribution of profits and surplus at of the year, but the distribution of village collective includes extracting public welfare fund, extracting welfare, benefits of investors and benefits of rural households, whereas, the distribution of farmers' cooperatives include extracting public welfare fund, extracting welfare, profits and surplus of each member in the cooperatives.

2.4 The differences and similarities in accounting of costs The village collective sets up the item of "production (labor) cost" to account the production and labor costs expended in the process of producing or providing labors of village collective. The farmers' cooperatives set up the item of "production cost" to account the production or labor costs produced in the process of producing or providing labor services of farmers' cooperatives. Obviously, the two accounting systems are concerted in stipulating the business accounting of costs and according to the actual situation, the two systems do not further divided the costs of products and labors into direct fees or indirect fee, which display the concise and practical features of the two accounting systems.

2.5 The differences and similarities in the accounting of losses

2.5.1 The profit and income accounting. In order to account

the sources of income, the former sets up "operation income", "income of contracting and handing in", "the added return income of agricultural taxes", "supplemented income", "investment profits", "other incomes" and some other items. The later accounting system establishes the "operation income", "investment income", "other income" and some other items.

2.5.1.1 The similar item of accounting income. In the two accounting systems, the major items with basic similar items and accounting contents of income are operation income, investment profits and other income. The operation income accounts the income of various economic activities of the two economic organizations at the very year, while investment profits account the profits and losses obtained by various investments of the two economic systems at the very year. The item of "other incomes" account the income excluded in the determined income scope, including penalty income, deposit interests, the income of fixed assets and inventories and the payable sum that can not be paid.

2.5.1.2 The special items for the accounting system of village collective. The collective feature of village collective economic organization and villagers' committee is the basic management organization, so the accounting system of Village Collective Economic Organization should be concise and easy to be understood, besides, it should fully abide by the principle of democratic finance and open village issues. Various incomes should be clearly accounted, except for operation income, investment income, the items of "contracting and handling in income", "agricultural added tax and return income" and "subsidy income" should be set up to account the profits of farmland, forest, fruit gardens, fish pool contracted by rural households and other units and the profits handed in by the township enterprises. The item of "agricultural added tax and return income" accounts the agricultural added tax and animal husbandry added tax returned by the township tax imposition and administration departments. Since 2006, China had eliminated the agricultural taxes, so the accounting system set up before the release of the policy still keep the item. The item of "subsidy income" accounts the subsidies provided by the related departments. In recent years, China has increased the input on "Three Agriculture" and the subsidies for launching rural tax and fee reform, so the sum of money needs to be accounted independently to let farmers and the government to supervise.

2.5.2 The differences and similarities in accounting profits and losses. In order to clearly account the expenses of village collective and farmers' cooperatives and take the actual situation of rural areas into consideration, the two accounting systems all establish three items of "operation expenses", "management expenses" and "other expenses" with similar names, accounting contents and accounting methods. The item of "operation expenses" accounts the actual expenses of operation activities of village collective organization and farmers' cooperatives. The item of "management expenses" accounts various kinds of expenses of village collective economic organization and farmers' cooperatives, for instance, wage of managers, office

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tion of rural labors can not separate from the scientific management of related governmental departments. Therefore, the relevant service and management departments on rural labor transfer from the central government to local government should be set up to improve the quality of the management team. The management of rural labor transfer should be directed united by the central government and cooperated by management departments at various levels. In the second place, the government should improve the establishment of laws and regulations on rural labor transfer to make sure that there are regulations to abide by and to guild. Besides, the government should inform rural labors the regulations to systemize and normalize the management. In the third place, the government should further promote the transparency of political affairs and provide convenience for farmer workers. Due to the low educational degree and dearth of legal knowledge, it is hard for rural labors to understand the complex political procedures, so the governmental departments should reduce the unnecessary procedures, improve the quality of administrative personnel and try

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expenses, travel expenses, depreciation of fixed assets and maintenance costs, business entertainment fee and some other expenses. The item of "other expenses" accounts the other expenses, which do not directly relate to the operation and management activities of village collective and farmers' cooperatives, for example, the depreciation of public fixed assets, expenses of interest, expenses on the damage of agricultural assets, losses of fixed assets and inventory, losses, expenses on flood control, sum payable can not be received, penalty expenses and so on.

3 Conclusions

Through the above analysis, it can be seen that the two accounting systems are similar in accounting economic businesses and they are all concise and clear. But the accounting system of village collective is also suit to the villagers' commit-

to solve farmer workers' problems. In the final place, the suggestion response mechanism of farmer workers should be established. The government should widely collect the problems and shortages in rural labor transfer and treat them as the reliance on decision-making and follow-up management to provide targeted and effective management and services for the high efficient transfer of rural labors.

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tee, which acts the responsibility of administration. The accounting system is established on the basis of the accounting system of village collective and combines the principles of enterprise accounting standard, which fully displays the demands of cooperation and profitmaking.

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