

**The lack of Financial Statement application in Kosovo's Farms and its consequences**

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**Abstract**

The application of financial statement analysis in business activities is essential but this is often seen as frivolous in developing countries and in Kosovo as well . From the research conducted in hundred farms in different regions of Kosovo we understood that the application level of financial statement applied is low and in few farms it does not exist at all. The following research questions were used for this research:

1. Why does this situation happen? 2. To what extent are farmers familiar with the financial statement analysis? 3. What is the farmer' willingness to advance in financial statement analysis field? 4. What would be the consequences due to the lack of application of financial statements?

**Key Words:** Financial Statement analysis, farms agriculture, Kosovo

## 1. Introduction

In order to understand the importance of something, first we should know what it is about, how it is used, why is it used etc. Questions taken from these answers are the source of information of a product, activity or field. Therefore the understanding of financial statement analysis field will lead to the understanding of its importance and to the identification of possible consequences in case of its absence in a particular business. Many authors such as those who are familiar with financial statement analysis also those who are not familiar with financial statement analysis but only do business say that primary objectives of financial statement analysis is the determination, prediction and assessment of business performance. The lack of knowledge in financial statement analysis results in the lack of financial statement analysis application while producing many consequences.

The study was focused mostly in consequences produced from the lack of financial statement analysis in farms in Kosovo and the continuance of the study "The role of financial analysis in agriculture farm in Kosovo" which was realized from the research in 100 farms when we concluded that the application of financial statement analysis methods in agricultural farms is in very low level.

Understanding and interpretation of financial analysis has a high importance and sensitivity (Shkodra et al., 2011), current financial information is essential (Lemieux, 1999), but in agricultural farms the financial analysis processes cannot be applied with any exact method (Bratka and Praulinš, 2008).

Lack of finance is often the critical mechanism for generating persistent income inequality, as well as slower economic growth (Beck et al., 2009). In agriculture farms the lack of financial statement analysis produces many consequences which may impact the overall performance of a farm in different ways such as:

- Farmers are incapable to know how it was, how it is now and how their business will be
- Which factors have caused the decrease of profitability
- Which expenditures were over limit
- What steps to undertake for positive trends etc.

The farm's performance is not dependent only on farmer's behavior but also on external people's behavior such as loan givers, suppliers who want to know about the situation of their partners (Shkodra et al. , 2011), and on investors and state institutions as well. Even though farmers want to increase their business activity they cannot manage to do that without help from

donators or financial institutions therefore financial statements analysis are the main factors that give positive signal to financial institutions for issuing credits.

Kosovo is characterized with the huge numbers of small agricultural farms. As every business' pretension is the increase of its profitability, the farms' pretension is the same. The increase of farm's profitability cannot happen through self financing but through credits which are very necessary. Farmers cannot receive adequate credits without having financial statements for their farms because financial institutions need to evaluate the farm's capacity to return their credits.

The consumption of agricultural credits in insufficient level is a factor that impacts the development of small and medium farms and this is shown in the agriculture and rural development plan for 2010 - 2013 where an agriculture land of small farms has remained almost the same comparing to development plan of 2007 - 2008.

## **2. Research procedures**

The aim for continuing this study was to show the consequences produced from the lack of financial statement analysis in small and medium farms in Kosovo. The research was conducted in 100 farms throughout Kosovo with farm's bookkeepers where in many cases they were owners of the farms. The reason for choosing the same farms with previous research was to understand how the lack of financial statements analysis has impacted their farms.

The research was done by the students of University of Prishtina, department of agro economy during period November 2011. There were  $n=0.100$  questionnaires realized by respondents.

The following research questions were used for this research:

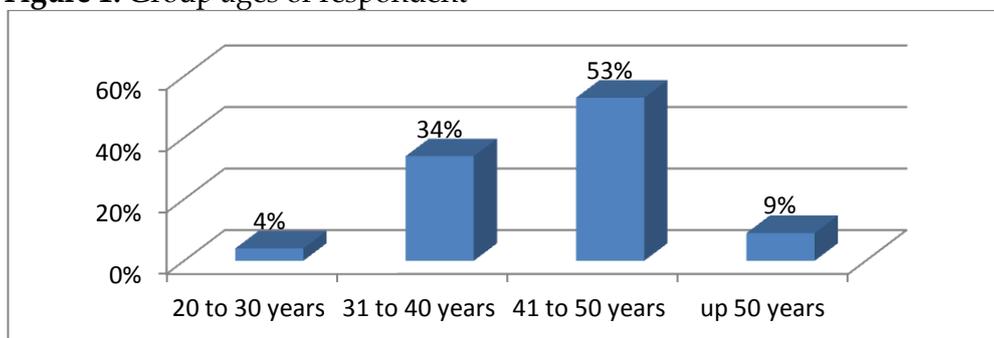
- a) Why did this situation happen?
- b) To what extent are farmers familiar with the financial statement analysis?
- c) How did farmers evaluate the importance of financial statement analysis?
- d) Did farmers apply for agricultural credits at the financial institution?
- e) What were the replies of financial institutions regarding credits demands?
- f) Did the lack of financial statement analysis cause higher credit interest rates and if yes to what extent?
- g) What was the farmer' willingness to advance in financial statement analysis field?
- h) What would be the consequences due to the lack of application of financial statements?

Data analyzing and processing was done with statistical software SPSS v15.0. Mostly respondents of survey were farmers from dairy and poultry farms.

### 3. Research results

The study was realized with bookkeepers of farms or as known in finance, accountants of different group ages. The group age from 41 to 50 years old dominate with 53%, 31 to 40 years old were 34%, 50 years and above were 9%, the group aged from 20 to 30 years old has the lowest percentage of 4%.

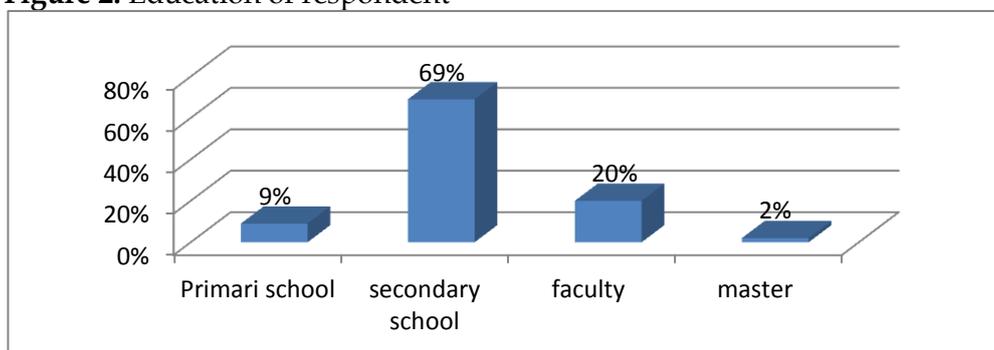
Figure 1: Group ages of respondent



Source: Authors' own calculation

Even though the job position of respondents as accountant is high the accounting job was done by the owners of the farm which are not professional in this field and not by accountants in fact. The rate of education of respondents was unsatisfactory where 9% of them have finished primary school, 69% of respondents were with secondary school, 20% of respondents have faculty degree and 2% of them are with master or magister qualification.

Figure 2: Education of respondent

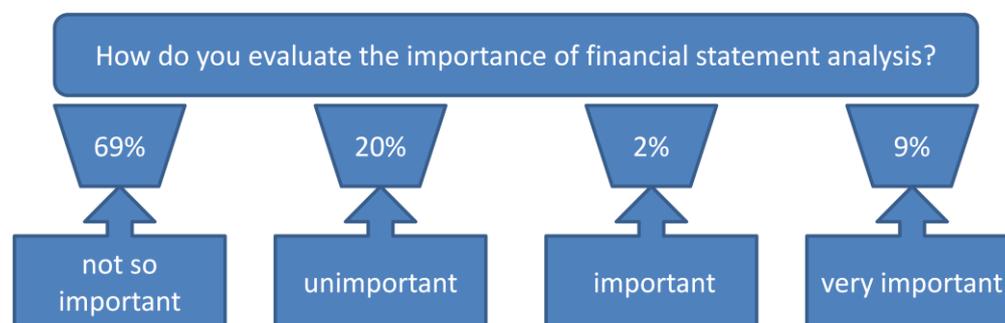


Source: Authors' own calculation

This situation regarding farmer's education was one of the reasons that caused the lack of knowledge over the importance of financial statement analysis causing also its absence. Even though the importance of financial statement analysis is different depending on what analyses business takes as Novák (2002) emphasized that on one hand business may flow in very good way but on the other hand business may become to some extent good or weak.

The fact that farmers didn't understand the importance of financial statement analysis is justified by the question: "How do you evaluate the importance of financial statement analysis?" While 69% of respondents answered "not so important", 20% of them evaluated as "unimportant", 2% evaluated as "important" and 9% assessed as "very important" (see fig.3.)

**Figure 3:** Evaluate importance of financial statement analysis



Source: Authors' own calculation

The suchlike situation of weak application of financial statement analysis can be understood also from question: "When did you start to apply financial analysis?" where only 6% of respondents have applied financial statement analysis from the beginning of their farms' activity.

To finance a firm is to provide capital for the firm (Baker and Holcomb, 1964). When questioned farmers, have they applied for agricultural credits in the financial institution, 91% of respondents answered with "Yes" and 9% of respondents answered with "No". In a question: "How important was financial statement analysis application evidenced of your farm for financial institution when applied for credits?" out of 91% of respondents who applied for credits 82% answered with "very important", 9% answered "important", 2% was "not so important", 7% answered with "I don't know" and none of them selected the option "not important". When questioned farmers "Do you think if you start to apply financial statement analysis in your farms you will receive agriculture credits with lower interest rate? 89% of them answered with "Yes", 4% answered with "No" and 6% answered "I don't know". In the following

question "Do you think that the lack of financial statement analysis impacted the increase of credit interest rate?" out of 91% of respondents who applied for credits, 63% said that financial institution conducted financial analyses in farm and the expenditures of these analyses were added to credit interest rate, 28% of them said that the lack of financial statement analysis causes uncertainty while increasing the credit interest rate and none of respondents said the lack of financial statement analysis did not impact the increase of credit interest rate.

Even though the consequences produced from the lack of financial statement analysis has been understood by farmers however they gave low priority to this field so we can understand this by the following question: Are you willing to pay accountant/bookkeeper to work in your farm? Unfortunately 77% of them answered "No", 19% answered "Yes" and 4% "Don't know", but farmers expressed readiness to attend any training regarding this fields if it would be free of payment.

#### **4. Conclusions and recommendations**

From this research we have concluded that farmers of small and medium farms in Kosovo have insufficient knowledge over financial statement analysis and only few of them (11%) evaluate the importance of applying financial statement analysis methods in their farms.

This situation is impacted from the following factors:

- Small and medium farms in Kosovo have been developed in primitive ways in the past when we also see from this research that 53% of farm's manager belonged to the group age from 41 to 50 years old therefore I think that it is difficult from these managers to reform their farms with new methods such as application of financial statement analysis.
- The educational level of farm's managers is low where 69% of them have finished secondary school, which is insufficient to understand the importance of financial statement analysis.
- No willingness to invest in the advancement of this field where 29% of respondents aren't willing to pay to get advanced.

Apart from researching for the rate of knowledge over importance of financial statement analysis in the agricultural farms other aim of the research was to understand the possible consequences produced from the lack of financial statement analysis. Credit is essential for the development of the agricultural farms or as Duval (2003) outlined that agriculture, like all sectors of the economy, needs credit for its development. Therefore our aim was to research what was the demand for agricultural credits and we found that 91% of respondents applied for these credits where 82% of them claimed that having

financial statement analysis were the priority issue for receiving credits. The lack of these analyses caused the refusal of receiving credit or caused the approval of credit but with very high interest rate.

Therefore the importance of financial statement analysis is high taking into consideration the fact that consequences produced from their absence would be very high. Referring the development of a business in general and a farm in particular the development or progress cannot happen with only self financing means but credits are the key success of development. Agricultural credits are one of the most dominated factors for development of small farms in Kosovo (Shkodra. et al, 2011).

The lack of financial statement analysis made difficult the procedures for receiving agricultural credits or credits were issued with unfavorable conditions which caused the decrease of farm's returns, slowing down the advancement of farm's technology, slowing down the increase of animal's race, lowering the rate of efficiency etc.

The lack of farmer's knowledge over financial statement analysis leads the lack of knowledge over farm assets, liability and equity, incomes and costs and inflows and outflows.

### **Acknowledgements**

The authors thank interviewed farmers for their cooperation during this second research. Special thanks go to students of Agro Economic Department, Faculty of Agriculture, in University of Prishtina.

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