DISCUSSION - OPERATIONS ON A POOLING BASIS

What is Pooling?

In cooperatives that operate on a pooling basis, products delivered by various patrons are commingled, processed, and marketed. The products are generally commingled by grade or by size and grade, if size is a factor. This is done because it is not possible or economically feasible to market each grower's product independently. Detailed records are kept for each pool and earnings from each pool are credited to growers on the basis of patronage, usually measured by the quantity or value of each grower's pool deliveries.

Another important reason for pooling is that it provides a means for all of the growers in a cooperative to incur the cost and risks that might be associated with the development of new products or new markets, whereas individual growers, on their own, couldn't afford to do so. It is through such pooling of risk that many marketing cooperatives have been able to develop export markets which might otherwise have been unachievable.

The cooperative may have only one pool for the year, or it may have numerous pools. It would have only one pool if its growers delivered only one product and it was all of the same grade and the board had decided that the entire season's production should be in one pool.

Multiple pools would result from the following:

1. Different grades and/or sizes;
2. Different products or varieties of the same product;
3. Different growing seasons and resulting different marketing conditions;
4. Allowing growers to set prices for a portion of their product deliveries (call pool);
5. Calendar divisions established by the board for various reasons; and
6. Closing or opening pools at other than normal times because of unusual circumstances such as the impact of severe weather.

Accounting for Individual Patrons

Cooperatives that operate on a pooling basis must keep careful detailed records for each grower. The following are some of the records that must be kept for each pool and for each grower in that pool:

1. Quantities of product delivered by variety and by size and grade within each variety;

2. Charges to the pool, if any, for such things as capital retains and operating retains;

3. Cash advances made;

4. Sales of pool products by size and grade for the pool as a whole;

5. Special charges or credits to the pool as a whole; and

6. Special charges or credits to specific growers.

Pool Periods

Pool periods range from very short such as one week to more than one year. Pools for wine cooperatives may last several years. Pool periods are normally determined by the production and marketing cycle. The number of pools and the pool periods are frequently determined by the board of directors.

Accounting for Product Deliveries

In pooling cooperatives, products received from members are commingled, processed and marketed. Earnings from the sale of finished products are returned to patrons in cash or equity on the basis of patronage. The cooperative may make advances during the year based on projected margins.

Some cooperatives establish a value for patrons' products at the time of delivery to the cooperative. In such cases, the grower is credited with such amount, but may receive cash payments over a period of time thereafter. In these cases, the established value of the growers' products becomes part of the cooperative's inventory costs and ultimately part of cost of goods sold. Any resulting excess of revenue over costs in the pool is the patronage earnings of the cooperative, and is allocated or paid to growers in proportion to their patronage in the pool.

Other cooperatives , instead of establishing a value for product deliveries, credit the growers with the quantity or value of deliveries and the level of such credits determines each grower's proportionate share of the ultimate proceeds from the pool. Such proceeds represent the net of all revenues realized from sale of products less costs incurred by the cooperative to handle, process, and market the products.

Inventory Valuation

Methods of valuing inventory include the following:

1. Net realizable value;

2. Lower of cost or market, using field price as the established value of raw product.

Net realizable value for product inventories is determined by deducting estimated completion and disposition costs from the estimated sales price of the processed inventory. Determination of estimated sales prices is based upon actual sales made since the balance sheet date, contracts for future sales, published market prices, and sales of comparable products made by others in the market. In the case of some commodities, future sales price estimates can be protected through the sale of commodity future contracts. Estimates of completion and disposition costs are based upon the prior experience of the cooperative in processing and marketing its products and knowledge of changed conditions that might affect those costs.

Marketing cooperatives that credit patrons with a firm market price at the time of delivery or that assign amounts that approximate estimated market to products received from patrons should treat the credited or assigned amounts as cost. These cooperatives can value inventories at the lower of cost or market. Some cooperatives may value the inventories at net realizable value to facilitate the determination of pool proceeds.

If cooperatives assign amounts to products delivered that do not approximate estimated market, net realizable value should be used in valuing the inventory.

Pool Closing

At the end of a pool period, the pool's net earnings are credited to amounts due patrons on a patronage basis. A pool will close when all the products are sold.

A pool may be closed at the end of an accounting period, but prior to the sale of all of the product, by transferring the inventory to the next year's pool. This is treated as a sale of the inventory by the current pool and a purchase by the following year's pool. The inventory must be valued properly to achieve a fair result. All of the risk associated with that inventory now belongs to the following year's pool.

The Internal Revenue Service generally disapproves of closing a pool by transferring the inventory to the next year's pool on the grounds that it does not properly "return proceeds" to the patrons. Many marketing cooperatives do this anyway, but usually under some level of constraint, such as requiring that the pool be 95% sold. It is important that the patrons be aware of and approve of the practice. The by-laws should clearly authorize the practice.

Multiple Pools and Cost Allocations

Cooperatives may market different products or different varieties of products which are accounted for in separate pools. Multiple pools are common to many different kinds of cooperatives which operate in different ways. Having multiple pools may require the allocation of expenses to the various pools.

In many agricultural cooperatives, the various pools consist of allocations of the revenue and expenses that appear on the organization's statement of operations. Allocations should be made using methods which fit the circumstances. Cost accounting principles should be used if applicable. If cost accounting is not applicable, overhead expenses are usually allocated on the basis of units of product delivered or a board established value for the products delivered.

A canning cooperative may can several different kinds of fruits and vegetables. The cooperative will assign a value to the raw product delivered which becomes a component of cost. Direct and indirect production costs are allocated to products based upon cost accounting principles. Margins at the end of the year may be allocated to patrons on the basis of the assigned value of the raw product delivered.

A cotton gin may process two different varieties of cotton using different machinery for each variety. In this case, it would be appropriate to allocate the depreciation and direct costs of the machinery to the cotton variety pool for which it was used. General and administrative expenses may be allocated on the basis of weight of the cotton delivered.