

ACCOUNTING ALTERNATIVE TREATMENTS REGARDING FIXED ASSETS - A NATIONAL AND INTERNATIONAL APPROACH

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Abstract

By introducing the IFRS, as main accountancy source for the quoted enterprises, on the markets established by EU, for making strong its position within the interior of a such large market, IASB could not present itself so uninterested in front of a potential extension of own accountancy documents, to a great number of small and middle enterprises, functional on the European market. Every thing is directed towards a growth of competitive capacity of enterprises, thanks to comparability, an existing characteristic within the internal accountancy Standard, generally applied (even in the simplified form for the small dimensions enterprises), and either on sector's level or upon credits access level.

Tangible assets are handled by the International Accounting Standard 16 – Tangible assets. The main issues addressed by IAS 16 Tangible assets refers to: recognition time of assets, determination of their accounting value, depreciation expenses to be recognized in connection with these values, the accounting treatment, requirements for submission of information.

This research papers objective consists on verifying the impact generated over the management of enterprise activity, by applying the international standards of accountancy IAS/IFRS, in editing and publishing the accounting period balance and of that reinforced balance, for the quoted companies. The aspects that we will underline with great importance will represent the modifications brought to the economic-financial informational system and of modifications appeared with a view to analyze the activity and performance of enterprises .

Keywords: alternative accounting treatments, tangible assets, IAS/IFRS, evaluation, tangible asset

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INTRODUCTION

In accordance to economical theory, the requirement of accountancy information determines the informational asymmetry and the economic conflicts existing between the management and the investors (Haley&Palepu, 2001). The balance and the inter-yearly relations are among the most important means, being at management's disposal with a view to communicate to investors. On the developed financial markets, with a view to strength the credibility of financial information provided it resorts to intermediaries, such as Law-maker, the Setters Standards, auditors, financial analysts, rating companies. It is not enough that the provided information to be credible, it is necessary that it has to be relevant or has to prove its utility for choosing the portfolio structure of the investor.[5]

The research made proves that publishing the balance will provide new relevant information for the investors. The informational capacity of financial situations varies, but depending on the entity's characteristics and of the origin country (Collins & Kothori, 1989; Alford Cordt, 1993; Pall & coaut., 2000; Paolo Andrei, 2006).[16]

Beginning with 80s, a feeling of non-satisfactions, as concerns the capacity of traditional accountancy criteria of providing relevant information, was issued. The fact does not surprise, because the accountancy systems evaluate in parallel to the economic system. Different studies have proved a decline of profit's capacity and of other entries of the balance, on explaining the economic performances of the entity, the analysis of Chang (1999), Lev and Zarowin, (1999), Brown and the coauthors, 1999, all making consideration to high state reality, thus proving the

relation between returns elements of shareholders and the profit, as that between the prices of shares, profit and book values.

The results partially different were achieved by Francisc Schipper (1999), which informed by documents the loss of profit's relevance on explaining the shareholders returns on one hand and which sustained that the explaining power of book values in confronting with market value didn't fail during the studying time (1952-1994) on the other hand; but it seems to be grown

RECOGNITION AND EVALUATION TANGIBLE ASSET ACCORDING IAS -16

International Accounting Standard 16 applies to all intangible assets, except:

- Tangible assets classified as held for sale in accordance with International Financial Reporting Standards 5 Fixed assets held for sale and discontinued activities;
- Biological assets related to agricultural activity covered by the applicability of International Accounting Standard 41 Agriculture;
- Mining concessions and mineral reserves such as oil, natural gas and non-renewable mineral resources;
- Recognition and evaluation of exploration and evaluation assets for which is applying the International Financial Reporting Standards 6 - Exploration and evaluation of mineral resources.

The cost of entry and posterior assessment

Old treatment: according to the implementation of the Law of accounting, evaluation of tangible assets is made at the entrance to the cost of acquisition or production. [18]

Alternative accounting treatments in the presentation of financial statements

Acquisition cost = Purchase price + Irrecoverable taxes + Transportation expenses + Other accessories expenses for operation of the asset.

New treatment: according to new regulations (IAS 16 "Revenue" and IAS 23 "Cost of indebtedness" and MFP Order no. 172/2005 and Directive IV), we have:

A) basic treatment provides using acquisition cost or production cost.

Acquisition cost = Purchase price + Irrecoverable taxes + Transportation and supply expenses + Other accessories expenses for operation of the asset.

For the initial cost of tangible assets includes also the estimated costs with demolition and removal of assets, respective costs of site restoration at the end of life.

These costs are reflected though constitution of a provision, which will be recorded in the profit and loss account over the life of the fixed assets, including depreciation in the annual expense.

The established provision should be used only for the purpose for which it was originally recognized. General and administrative expenses are not elements of cost of fixed assets, if are directly incurred for the purchase or installation. Start-up costs (start) and pre-exploitation costs are not included in the cost of fixed assets, except the cases where are necessary to the running of them. IAS 23 "Cost of indebtedness" provides two possibilities regarding the financial costs of tangible assets:

- the costs inter in the accounting value of assets, according to the method of capitalization (alternative treatment);
- the costs are considered expenses of the period and affects completely the result of the year in which they were made, according to the method by result (basic treatment).

Production cost = acquisition cost of raw materials and consumables + other direct production costs + share of indirect production costs allocated rationally as related to their manufacture.

Are not included in production costs the administration expenses and sub-activity costs (due to temporary reductions in the volume of activity, some social conflicts) and the costs of scrap and losses that can appear during the own production process of the asset.[2]

Alternative treatment: tangible assets are valued, at home, at their purchase cost and are re-evaluated based on their fair value (usually at the market value) at the balance sheet date. Re-evaluation on the ensemble of the assets from the same category and is simultaneously. Re-

evaluation difference should be written in won capital at "revaluation reserves". When recoverable value of the property is less than net accounting value, calculated depreciation represents an expense of the year course, unless the situation when the asset has been previously re-evaluated, in which case depreciation is supported from the difference from re-evaluation. [1]

Companies can buy tangible assets using leasing contracts. In this case, the entry value of the asset is influenced by the type of contract (operational or financial), the residual value and customs duties (if the lessor is not resident). In the case of operational leasing, register of the asset entry shall be made at the date of transfer of property covered by the contract, and in the case of financial leasing the moment of the assets recognition in the accounting of the lessee is that of the beginning of use. [7]

Alternative accounting treatments in the presentation of financial statements and MFP Order no. 1752/2005, lays down also two treatments: basic and alternative treatment. Thus, it provides that a fixed asset must be **initially evaluated at its cost** (acquisition cost for those courts for consideration, the cost of production for those produced in the entity, the value of the contribution made to the contribution to the capital, at fair value to those obtained free), at the balance sheet date is presented in the balance, less the cumulative value adjustments (**basic treatment**). Tangible assets can be **re-evaluated** at the end of the financial year, the true value at the balance sheet date (**alternative treatment**). [3]

We believe that the **alternative treatment** of the new regulations, the value of tangible assets **reflect more true the financial position**, especially if the case of some hyper inflationary savings. Professional reasoning, interest and management of the enterprise determine the choice of presentation variant of the balance sheet. [4]

PROPERTY ACQUIRED BY EXCHANGE WITH OTHER ASSETS

Old treatment: national regulations do not specify this aspect.

New treatment: the International Accounting Standards determine that fixed assets entered by exchange with other fixed assets are valued at:

- fair value if the assets exchanged are different, in this situation the cost of entry is the fair value of assets received in exchange, equal to the fair value of assets assigned, corrected with the amount of any amounts transferred in cash or cash equivalent.

- the net accounting value of the transferred assets when it comes to similar assets used in the same sector of activity, according to this variation, the value of the asset received is given by net book value of assets assigned (input value less accumulated depreciation and impairment of value) and the value of the asset received is less than the net book value of assets assigned should be registered a depreciation of the new asset value (if the two assets are similar).

DEPRECIATION (REDEMPTIONS)

Old treatment: Regulation of implementing the accounting law establishes that must be the subject of amortization both tangible assets as the type of fixed assets and certain intangible assets (expenses, costs of research and development, patents, licenses, trademarks, software programs).

Depreciation is determined by applying the depreciation rates on the value of input of fixed assets.

Depreciation allowances are established according to the normal operating duration for fixed assets. Expenditure for establishment and expenditure for research – development, is amortized within max 5 years, the information programs within max 3 years, and patents, trademarks, licenses are amortized according to the duration of their use by the enterprise. [6] – [13]

Depreciation methods are determined by the law of depreciation, using one of the following methods: straight-line method, digressive method or accelerated method.

New Treatment: Order 94/2001 and IAS 16 "Tangible assets" provide that in the case of assets with limited normal operating duration the depreciation is calculated based on the cost of

acquisition or production cost which was deducted from the estimated residual value. It will increase consistently during the operation period by calculating the appropriate redemptions. MFP Order no. 1752/2005 provides that depreciation is calculated on the basis of the depreciation plan, from the date of service until the recover of the full value of their input, according to terms of use and economic conditions for their use. Duration of economic use means

- The period during which an asset is set to be available for use by an entity;
- Number of units produced or of similar units which are expected to be obtained by using the asset in question.

ASSETS DEPRECIATION

Old treatment: the issue of depreciation of assets is treated like the French solution. Thus, lowering the value of an asset results from the causes whose effect is not judged definitively, leads to the establishment of a provision for impairment.

ALTERNATIVE ACCOUNTING TREATMENTS IN THE PRESENTATION OF FINANCIAL STATEMENTS

If the actual value of an asset becomes lower than its net accounting value and depreciation is considered final, the good is the subject of an exceptional depreciation for difference between the net accounting value and its present value. [9]

New treatment: according to IAS 36 "Impairment of Assets", an enterprise should assess at the end of each financial year if an asset must be depreciated based on internal and external indicators. The enterprise must provide that its assets are not registered at a greater value than their recoverable amount. An asset is considered recorded at a greater value than the recoverable value, if its accounting value is exceeding the recoverable value from the use or sale of the assets. If the accounting value is greater than the amount recoverable, the asset must be depreciated and the enterprise must recognize a loss by depreciation. International accounting rules require that with an asset revaluation should be re-evaluated the entire class of assets which it belongs. [8]
From 1 January 2006, according to MFP Order No. 1752/2005, the assets will be adjusted to the balance sheet date. Value adjustments may be permanent, in which case the changes will be made through depreciation, or provisional, in which case the provisions are used. [14] – [22]

EVALUATION AT THE INVENTORY AND AT CLOSING THE YEAR

Old treatment: The implementation regulation of the accounting law provides that tangible assets are valued at the inventory at inventory value, determined by the usefulness of the asset and market price, and on exit from the heritage at their input value.

New treatment: the two orders of MFP determined that at the inventory of fixed assets is using the inventory value called the current value, which is the net accounting value, affected by the utility property for the company, the market price for similar assets, the assets situation (physical and moral wear).

On balance sheet date the assessment of tangible assets can be done by two treatments: one basic and other alternative. Under **basic treatment**, the balance-sheet value of tangible assets is represented by the cost, adjusted with the cumulative depreciation value and any accumulated losses from impairment.[15]

The **alternative treatment** provides that, after initial recognition, a tangible asset presents in the balance sheet at **reassessed value**, based on the fair value at the time of revaluation, less cumulated depreciation and loss from impairment. If the fixed assets have no active market, then is taken into consideration the fair value of similar assets on the basis of assessments conducted by authorized assessors.

In the case of evaluation at the conclusion of the financial year, for assets are applied the prudence principles, and by comparing the two values can appear the following situations:

a) Pluses of value, when the value of inventory is greater than the accounting one and taking into account the precautionary principle these pluses are not counted;

b) Minuses of value, resulted in situations where the actual value is lower than the input, due to depreciation, according to the principle of prudence, irreversible depreciations are recorded as depreciation, and reversible ones with the provisions.

For the liability elements of debt nature, the differences found in between accounting value and input value of the liability elements of debt nature is recorded in accounting, on the appropriate elements of debt. [17]

Exiting from the company's management the fixed assets is usually made at the entrance value, taking in view the concrete situation of each asset under evaluation.

We believe that, in terms of inflation, using the new accounting rules that require the use of the concept of **fair value**, is necessary to deal again all the elements of balance sheet, ie the use of alternative treatment.

Example

Company "Y" acquires a land for the purpose of marketing activities, the purchase recorded at the price of 34,000 um, with a series of spending: taxes 400 um, transaction fees for brokering 1200 um, costs related to demolition of a disabled building 2200 um, and an amount of 800 lei from the capitalisation of some materials resulted from dismantling. Would result a land cost of 37,000 um.

Cost de acquisition = Acquisition price + Direct attributable costs

Determining the acquisition cost:

- acquisition cost	= 34.000 u.m.
- taxes	= 400 u.m.
- honoraries for brokering	= 1200 u.m.
- costs related to demolition of a disabled building	= 2200 u.m.
<u>- sums from capitalisation of materials resulted from dismantling</u>	<u>= (800) u.m.</u>

Acquisition cost = 37.000 u.m.

Acquisition of land with building at a distinction price is part of the *procurement group*. In this case, taking into account the nature of different asset components according to the duration of use, is necessary to separate the single price of them for determination of assets' cost.

But should not be omitted the estimated costs for dismantling and moving the assets, respective, the costs of restoration of the site, to the extent that the cost is recognized as a provision under IAS 37 "Provisions, assets and contingent liabilities"[19].

The cost should not be always rated as the payment to a supplier. May be also the value we assign initially the specifications of another standard. For example, in the case of a company that has fixed assets acquired through the contribution in kind to the share capital, will not apply the appropriate treatment IAS 16 to these assets, but will use the provisions of IFRS 2 "*Share Based Payments*".

Analyzing the recognition criteria of tangible assets, may reveal some particular situations.

ACCOUNTING OF DEPRECIATION

METHODS OF DEPRECIATION

Old treatment: Depreciation is determined by applying the depreciation rates on the value of the fixed asset entry. Depreciation of fixed assets is based on a depreciation plan, from the date of their service and until the complete recover of their input value, according to the terms and conditions of use.

New treatment:

Under IAS 16 "Tangible assets", depreciation amounts are distributed to each year during the use of the asset after different methods.

Depreciation represents a systematic allocation of the depreciation value of an asset on his entire useful life duration.

Utile life duration of an asset is determined through the analysis of the following factors:

- the estimated use level by the business (based on production capacity or production estimates);
- estimated natural attrition;
- moral attrition occurred / will occur;
- legal limits on the possible use of assets.

Depreciation value is determined by subtracting from the accounting value of the asset the net residual value. **Residual value** is the net value which a company estimates that it will obtain for an asset, at the end of the useful life, after deduction in advance of foreseeable transaction costs. If the residual value is significant, it must be estimated at the date of acquisition (when is applying the base treatment), or at each review (when is applying the alternative treatment).

Whatever the method chosen, it is necessary to be applied consistently, regardless of the level of profitability of the company or tax consequences, to allow comparability of the results of an enterprise from an exercise to the next. **IAS 16 "Tangible assets"** presents depreciation methods that can be used: the linear method, the digressive method and total figures method.

Linear method allocates constantly an asset cost on the entire useful life. Using this method includes the following:

Alternative accounting treatments in the presentation of financial statements

- Subtracting the residual value from the initial value of reassessed value;
- Estimate by the enterprise the undertake life.

Digressive method establishes a depreciation value greater in the first years of use, which decreases as the asset is approaching the end of useful life. This method may have several variants:

- Applies a constant rate of depreciation at a variable base (eg, accounting value or net accounting value of remaining cushion);
- Applies a variable depreciation percentage at a constant base (accounting value);
- Is calculated in proportion to the produced quantity.

Method of total figures achieves allocation of initial cost based on the level of use of the assets. Accounting value of the asset weighted with an index calculated by adding together the years of operation and estimated annual production.

Whatever the used depreciation methodology we should respond to several requirements:

- a) the depreciations to give the possibility to renew the assets in rate fixed by business, meaning permanent correlation of depreciations with the replacement value of the equipment;
- b) the depreciations to be included in cost of products, services and works carried in a sufficient measure, so to do not determine the creation of fictitious profits, but neither their artificial decrease;
- c) the chose amortization regime to give the possibility of uniform influence of products, services and works cost.

MFP Order no. 1752/2005 and MFP Order no. 94/2001, provides for the use of the following methods of depreciation: linear, accelerated and depressive. Depreciation will be calculated during the economic use of assets.

Comparing the two methods of depreciation, linear respectively digressive, we can conclude that using the second method, the beneficiary will pay a property tax less than the first two years, as depreciation costs will be higher (496 and 372 that exceed sum of 310, the amortization value in the case of linear method). [20]

We believe that in high inflation conditions, the absorption loses the role that has in terms of fixed capital breeding, whereas in the case of lowering the purchase of currency and the rapid growth of price, calculation of redemption having as basis the historical cost will not also allow efficient performance of the function of maintaining physical capital, resulting a loss from two reasons: to obtain a final result more bigger than the real one because of the inclusion in costs of some expenses with undervalued amortisations, leading to the reporting of fictitious profits and payment of over-evaluated taxes and dividends; regarding the cost of a tangible asset element of the International Accounting Standard 16 requires two criteria for its recognition as active and namely: it is possible to generate by the entity of future economic benefits related to the assets, and cost of assets can be credibly assessed. [21]

CONCLUSIONS

Within their competition, elements of different nature, which cut across both the accountancy rules of our country, and also the international standards of IAS/IFRS standards, will determine changes of the economic-financial informational system, changes that will be produced within the storing, discovering, elaborating and releasing the information. Particularly, as concerns the necessary information for accomplishing certain criteria of evaluation, foreseen by IAS/IFRS, such as *impairment test*, data with predicted character as regards the planning system or external information have to be stored. [11] – [12]

According International Financial Report Standard IAS -16, the future economic benefits are represented by the potential to contribute, directly or indirectly, to the feed the treasury or equivalent of the treasury to the entity, potentially which can be one productive, being part of the operating activities of the entity. [23]

Under IAS 16, a tangible assets element which is recognized as assets be measured initially at its cost, the cost that varies depending on the entry way of the equipment in the enterprise: through acquisition; by production, if construction, own; exchange of tangible assets; as a result of government subsidies; as a result of combining companies.

According to national regulations, an asset recognized as an active must be evaluated initially at its cost determined according to evaluating rules specific for these regulations, depending on how entry entity, Also, in the tangible assets are highlighted distinct the tangible assets under production/running.

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