

THE INFLUENCE OF THE ACCOUNTING TREATMENT OF PROPERTY ON AN ENTITY'S RESULT

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ABSTRACT

The role of the financial statements is to offer useful financial information to users in making decisions. They can meet this role only in relation with those objectives which can be clearly quantified as value and quantity measures.

One of the requirements to ensure the comparability of the financial information is for users to have information regarding the accounting policies and their change.

Although, the production of financial information occurs in a regulated environment, it is noticed that, profiting from the flexibility of the accounting rules, many companies correct the result, procedure consider legal.

It is difficult to choose the most relevant policy out of the multitude provided by the International Accounting Standards.

Key words: property, cost, initial recording, reevaluation

Cod JEL: M41 – Accounting

1. THE CONCEPT OF PROPERTY ACCORDING TO THE INTERNATIONAL AND DOMESTIC ACCOUNTING

Properties represent a significant part of a company's assets as regards the financial position of the company.

The success of a company in gaining future economic benefits depends on the investment decisions made at present². Paragraph 53 of the General Framework of IFRS explains that future economic benefits contained in an asset have the potential to contribute directly or indirectly to the cash flow and the cash similar for the entity. The company controls a property if it has the capacity to gain future economic benefits from the resource and to restrict the access of others to such benefits.

According to the international view, **IAS 16 – Properties, plant and equipment**, properties are tangible elements possessed by a company for one of the following purposes: to be used for the production or delivery of goods and services, to be rented to third parties, to be used for administrative purposes. A prerequisite is to be used for several financial years. Properties usually include: lands, buildings, technical plants, machines, equipment, furniture, etc.

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² Morariu A., Radu G., Păunescu M. - Contabilitate și fiscalitate în dezvoltarea firmei, Ex Ponto Publishing House, Constanța, 2005

Intangible assets, as per **IAS 38 – Intangible assets**, are defined as identifiable, non-financial assets, without material support and possessed to be used in the production process or for the delivery of goods and services, to be rented to third parties or to be used for administrative purposes. An asset meets the identification criteria from the definition of intangible assets when it is separable (it can be separated or taken from the entity and sold, transferred, patented, assigned under a license contract, rented or changed, individually or under contract with an asset or related debt), arises from contractual rights or from other rights granted by the law, irrespective if such rights are transferable or separable from the entity or from other rights and obligations.

Financial assets include shares in affiliated entities, loans granted to affiliated entities, participations, loans granted to entities connected to the company under participations.

In France, the Authority of Accounting Standards (Autorité des normes comptables - ANC), defines the asset as an identifiable element of the company's patrimony with a positive value for the company. It is an element which generates resources for the company controlling it and from which the company expects future economic benefits. This definition covers all classes of assets: properties, inventories, receivables, portfolio titles, treasury, etc. According to the general definition of the asset, the French General Accounting Plan (PCG) indicates that a property can be recorded in the balance sheet if the following conditions are cumulatively met:

- The asset must be identifiable;
- The asset must have a positive economic value reflected in the future economic benefits that a company is expecting;
- The asset must be controlled by the company; this control relates to the juridical ownership, but can also relate to the economic ownership;
- The asset can be evaluated with a high degree of feasibility. In general, there are few situations when the company does not record a property in the balance sheet provided that it cannot evaluate it sufficiently precise. This is the case of trademarks created by companies and which are not recorded as properties because the evaluation of their future economic benefits is difficult to make.

Similar to the international accounting standards, **the domestic accounting legislation defines properties** as those assets in the property of the company in order to be used for the production of goods or delivery of services, to be rented to third parties or to be used for administrative purposes. They must be used within a period longer than a year. In terms of differences, the domestic accounting rules do not distinguish between fixed assets, investment property and fixed assets possessed for sale purposes. The international accounting rules defined investment properties (IAS 40 *Investment property*) as real estate property possessed by an owner or tenant (under a financial leasing contract) for rental or to increase the capital value or both, both to be used in the production/delivery of goods/services or for administrative purposes and to be sold in the regular course of activity. A fixed asset possessed for sale is the asset whose accounting value will be mainly recovered from sale and not from its constant use. In the domestic accounting, investment properties are included in the class of lands and buildings and fixed assets possessed for sale are included in the class of inventories.

Intangible assets are defined by the domestic accounting rules as identifiable, non-financial assets, without material support and possessed to be used in the production process or for the delivery of goods and services, to be rented to third parties or to be used for administrative purposes. Example: establishment costs, development costs, assignments, patents, licenses, trademarks, goodwill, etc. To identify them, an intangible asset must have the same characteristics as those stipulated by the international rules.

Financial assets are separated in the domestic accounting framework in the following classes³: shares in affiliated entities, loans granted to affiliated entities, participations, loans granted to entities connected to the company under participations, other investments possessed as assets and other loans.

Another means of classification and separation stipulated by the domestic accounting rules, OMFP no. 3.055/2009 on accounting regulations observing the European directives, refer to financial instruments. A financial instrument is a contract which generates simultaneously a financial asset for an entity and a financial debt or an instrument of own capitals for another entity. The elements of financial assets and financial debts are defined by the domestic accounting rules according to the international accounting rules, in this case IAS 32 – *Financial instruments: presentation*.

A financial assets is any asset representing: cash, own capital instrument, the contractual right to receive cash or other financial asset from another entity or to change assets or financial debts with another entity in conditions which are potentially favorable to the entity, a contract which will be or can be settled in own capital instruments.

A financial debt is any debt representing:

A contractual obligation to assign moneys or other financial asset to another entity or to change assets or financial debts with another entity under conditions which are potentially unfavorable for the entity;

A contract which will be or can be settled in the entity's own instruments of own capitals and, in its turn, is: a non-derivative financial instrument for which the entity is or can be compelled to deliver a variable number of its own instruments of own capitals; a derivative financial instrument which will be or can be settled otherwise than by the exchange of fixed amount of cash or other financial asset in exchange of a fixed number of its instruments of own capitals.

2. THE INFLUENCE OF THE DECISION TO RECORD A PROPERTY IN THE COMPANY'S RESULT

The decision if an expense is an asset or operation expense can have a significant impact on the results reported by the company.

³ OMFP no. 3.055/2009, Order of the minister of public finance to approve the Accounting Regulations observing the European directives, published in the Official Gazette of Romania, part I, no. 766 bis of 10.11.2009 (point 117 (1))

The International Financing Reporting Standards stipulate that an asset is recorded as tangible property (or intangible) when it meets the definition or criteria for recording it as asset, as defined by the General Framework for the preparation and presentation of financial statements.

To be recorded in the balance sheet, an asset must meet two criteria:

- To comply with the asset's definition; and
- Its cost to be feasibly recorded.

By particularization, a tangible property will be recorded as asset when it meets two conditions: it generates future economic benefits for the company and the cost of the asset can be credibly measured. The recording of property in the financial statements is made through the general rule used by the international accounting rules for recording an asset: fixed assets are assets generating future economic benefits, which also include the assets meant to be continuously used for a period longer than a year in order to carry out the company's activities⁴.

When certain tangible properties are purchased by a company for safety reasons or for environment-related reasons, some problems might occur related to their recording in accounting. Even if they do not have a direct relation to the increase of the future economic benefits, such tangible properties can be necessary for the company to gain future economic benefits. Because they meet the conditions to be recorded as assets, the international accounting standards allow the recording of such elements as tangible property. This arises from the fact that the company can gain future economic benefits from additional assets besides what it might gain if such elements had not been purchased.

For instance, a medicine manufacturer can implement new technological processes to comply with the environment requirements for the production and storage of dangerous toxic substances. In such case, the improvement of the plant is recorded as asset because, without it, the company cannot make and sell its products.

It can be said that other standards stipulate the recording of an element of tangible property based on a different approach compared to that from IAS 16 – *Property, plant and equipment*.

IAS 17 – *Leases* requires a company to evaluate the recording of an element of tangible property in its possession under a leasing contract, based on the transfer of rights and benefits, by enforcing the principle of the prevalence of economic over juridical in recording the financial leasing treatments.

The accounting treatments related to the recording of the expenses made with intangible property, generated internally and those related to the evaluation of the goodwill can be considered as having a significant impact on the company's result. In case of intangible

⁴ OMFP no. 3.055/2009, Order of the minister of public finance to approve the Accounting Regulations observing the European directives, published in the Official Gazette of Romania, part I, no. 766 bis of 10.11.2009

property, the criterion for recording the probability to generate future economic benefits is always considered met for intangible property bought by companies separately or in combination. It is considered that the just value of a tangible property purchased in a combination of companies can be usually determined feasibly enough for the said to be recorded separately from the goodwill. This identification is supplemented by the company's capacity to obtain future economic benefits from such intangible property and to restrict the access of others to the benefits gained. The recording of the intangible property by the company involves a very feasible evaluation. Certain intangible properties can be kept on material support, such as CDs (in case of software), legal documents (in case of licenses or patents), etc.

To decide if a property including both tangible and intangible elements must be treated as intangible or tangible property, a company must evaluate which element is more significant. For instance, the software for a computerized plant which cannot operate without such specific software is included in the value of such tangible property, the same for a computer's operational system. When the software is not integral part of the hardware, the software is considered intangible asset.

A more difficult problem concerns the evaluation and recording of intangible elements generated by the company. To be distinguished from the goodwill, an intangible asset must be identifiable. If the purchased goodwill meets the conditions to be recorded as fixed asset, the same cannot be said about the internally generated goodwill. Even if a company constantly invests in its goodwill, such goodwill created by the company cannot be feasibly evaluated and, therefore, it impacts the profit and loss account. This accounting treatment of the internally generated goodwill is grounded on the idea that the goodwill generated by the company is not separable and does not arise from contractual or other rights.

A financial property is recorded as asset in the balance sheet when the two conditions are met for recording any other asset.

3. THE ACCOUNTING TREATMENT OF PROPERTY ACCORDING TO THE DOMESTIC AND INTERNATIONAL VIEW

The accounting policies regarding property influence directly the company's accounting result.

The most significant accounting policies encountered as concerns tangible and intangible property refer to:

- The evaluation basis of property according to the initial recording, the contents of costs, the residual value, the amortizable value and the amortization term;
- The evaluation after recording, by using two models: the model based on cost and the model based on reevaluation.
- The evaluation and recoding of the tangible assets' indebtedness cost in the production or purchase cost, as the case may be;
- The evaluation and recording of gains and losses by means of the assignment or cassation of property;

One of the goals of the International Accounting Standards is the description of the accounting treatment related to property.

The financial statements' users receive information about the investments in fixed assets and about the changes occurring following such investments.

The main problem concerning the accounting of properties is to identify when the accounting value is recorded. IAS 16 – *Property, plant and equipment* stipulates two moments of the evaluation:

- Evaluation at the moment of the recording (initial costs, costs after the entry of the tangible property);
- Evaluation after the moment of recording.

All tangible properties recorded as assets must be evaluated initially as per their cost. To determine the cost of a tangible property⁵ several elements must be considered:

- The purchase price, customs duties and nonrefundable purchase taxes included, after subtracting all discounts and reductions.
- Costs directly related to transport the asset and to put it into a functional state;
- Costs estimated initially to disassembly and move the asset;
- Costs to reestablish the emplacement.

The recording of the subsequent costs is closely related to the two conditions for the recording of a fixed asset, indicating that those costs which do not meet the two conditions must be recorded in the result account (for instance, a company will not record the daily maintenance costs as per the accounting value of an element of tangible property, as they are recorded as costs of the accounting period).

The subsequent expenses are capitalized in the following cases:

- When an asset is changed in order to expand its useful lifespan;
- When some components are modernized or when a manufacture line is refurbished to reduce operational costs.

As regards intangible assets, there are differences compared to the international accounting rules. IAS 38 – *Intangible assets* does not allow the capitalization of the establishment expenses and requires them to be recorded in the loss and profit account.

OMFP no. 3.055/2009 indicates that a company should consider the establishment expenses as assets and the amounts recorded in the balance sheet as establishment expenses should be indicated in the notes.

The goodwill is usually recorded in the consolidated financial statements, as the difference between the purchase cost and the just value of the part of the net assets purchased by a company. In the individual yearly financial assets, goodwill can be recorded only if all the

⁵ The cost of an element of tangible asset is the cash equivalent of the price on the recording date.

assets are transferred or only parts thereof and, as the case may be, in case of the transfer of debts and own capitals, irrespective if the transfer is made following purchase or merger. The internally generated goodwill is not recorded as asset because it is not an identifiable source controlled by the company and cannot be evaluated credibly as per its cost. If the goodwill is considered asset, it is usually amortized in maximum five years (there is an exception when companies can amortize the goodwill in over five years, but this term will not exceed the economic use of the asset).

As regards the evaluation after the recording of the tangible and intangible asset, a company has to decide, in terms of accounting policy, between two accounting models:

- The cost model
- The reevaluation model

This decision must be the same for each class of properties. A class is an assembly of assets similar in nature and use in the company. The evaluation models can differ between different classes of properties.

The cost based model involves that, after the recording as asset, an element of tangible asset must be recorded at its cost less any accrued amortization and losses accrued from depreciation.

The reevaluation model involves that an element of tangible property whose just value can be feasibly evaluated must be recorded at a reevaluated value, which is its just value at the date of the reevaluation, less any accrued amortization and any loss accrued from depreciation.

The recording of the financial properties refer both to the initial recording and to a subsequent recording. The initial evaluation is based either on the purchase cost or on the value determined based on the purchase contract of such financial property. The subsequent recording involves the evaluation of the financial assets at the date of the financial statements and on the date of their exit from the company, moment known as de-recording. The subsequent evaluation is made at the entry value, reduced by the adjustments accrued for depreciation or loss of accrued value.

The evaluation at exit (the moment of de-recording) of financial assets can be made both at the entry value and at any other replaceable accounting value, which can be recorded in the balance sheet.

The domestic accounting rules observing the European directives indicate that companies can evaluate financial instruments at their just value only for consolidated financial statements. Exception is the derivative financial instruments evaluated at the just value both in the individual financial statements and in the consolidated yearly financial statements.

IAS 16 *Tangible assets* indicates the existence of two moments when de-recording must take place for an element of tangible assets: when the asset is assigned or when no future economic benefit is expected from the use of the asset. In case of financial instruments, a company must de-record a financial asset in two cases: when the contractual rights over the

cash flows arising from such financial asset terminate or when the asset is transferred and the transfer meets the de-recording conditions regarding risks and benefits. The loss or gain arising from the de-recording of the elements of tangible assets must be included in the result account, as it is determined as the difference between the net payment at assignment, if any, and the accounting value of the element.

Unlike the international accounting rules, OMFP no. 3055/2009 indicates the existence of four moments when tangible property is evaluated: when they enter in the company, when they are inventories, on the date of the balance sheet and when they exit the company⁶.

When they enter in the company, assets are evaluated and recorded in the accounting at their entry value, which is determined as per the purchase cost – for assets bought onerously or as per the production cost – for assets produced by the entity⁷.

The purchase cost of the assets includes the purchase cost, the import taxes and any other taxes (save for those the legal person can recover from tax authorities), transport expenses (included when the supply is outsourced), handling and other expenses directly related to the purchase of such assets. There are also included fees, notary costs, expenses for permits and other unrecoverable expenses directly related to the assets. The cost estimated initially for the disassembly and movement and the reestablishment of the emplacement when the property is located are costs included in the purchase cost. Such elements are included in the cost of the tangible property when they can be credibly estimated and when the company has the legal obligation to disassemble (move) the tangible property and to remake the emplacement.

The production cost of an asset includes the purchase cost for raw materials and consumables and the production costs directly related to the asset. The production cost of tangible assets includes direct expenses related to production (direct material, energy consumed for technological purposes, labor and other direct production expenses, cost of product design) and the share of the indirect production expenses distributed rationally as related to their manufacture. The cost of the tangible property produced by the company is determined based on the same principles as in the case of purchased assets. If the company produces similar assets, for sale under regular transactions, the cost of the asset is usually the same as the building cost of the asset meant to be sold. In such case, any internal profit is excluded from the calculation of this asset's cost. The expenses which are waste, labor or other resources over the limits accepted as regular and the losses occurred during the asset's production are not included in the asset's cost.

Domestic accounting rules also refer to tangible properties under execution which are presented as those unfinished investments performed by the company on its own or under

6 OMFP no. 3.055/2009, Order of the minister of public finance to approve the Accounting Regulations observing the European directives, published in the Official Gazette of Romania, part I, no. 766 bis of 10.11.2009

7 OMFP no. 3.055/2009, Order of the minister of public finance to approve the Accounting Regulations observing the European directives, published in the Official Gazette of Romania, part I, no. 766 bis of 10.11.2009

contract. Their evaluation is made as per the production cost or as per the purchase cost, as the case may be.

Additionally to the purchase and production costs, at the date of the initial recording, tangible assets can be evaluated *at their intake value or at their just value*. The assets brought as contribution to the company's share capital are evaluated at their intake value determined following evaluation. The assets procured free of charge or noticed as surplus in inventories are evaluated at their just value. The just value of the assets is generally determined based on the market data by means of an evaluation usually made by certified professionals in evaluation. The intake value can be assimilated to a just value because it is established following the evaluation at the date of the contribution. While the purchase cost and, at some extent, the production cost can be considered objective values, the intake and just values can be considered exceptions from the principle of prudence, having a high degree of subjectivity.

The domestic accounting rules indicate the *moment of asset inventory* as another moment of asset evaluation. Inventories are specific elements of the domestic accounting framework and it does not occur in the international accounting standards. The inventory of assets, debts and own capitals occurs to prepare yearly financial statements. OMFP no. 3.055/2009 indicates: *in the yearly financial statements, assets (including assets brought as contribution and assets under execution), debts and own capitals are recorded and evaluated at their accounting value⁸, correlated with the results of the inventory (the value determined based on inventory referred to as inventory value).*

To determine the inventory value for the assets, the principle of prudence will be enforced, according to which all value adjustments caused by depreciations or loss of value will be considered. For the assets recorded as per their cost, the differences noticed in minus between the inventory value and the accounting value, it will be recorded separately in accounting, in adjustments account, these elements being kept at their intake value. As per OMFP no. 2861/2009, *inventories' main purpose is to determine the actual situation of all elements, such as assets, debts and own capitals for each entity and of assets and values held under whatever title, belonging to other legal or natural persons, in order to prepare the yearly financial statements, which must offer a faithful image of the financial situation and of the company's performance for the financial year*. The correction of the tangible and intangible property's value and their correlation to the inventory value is made according to the type of existing depreciation or by recording an additional amortization if a permanent depreciation is noticed, either by establishing or supplementing adjustments for depreciation, if their temporary depreciation is noticed.

The evaluation of the tangible assets at the date of the balance sheet (OMFP no. 3055/2009) is made:

⁸ The accounting value of an asset is the value according to which it is recorded, after the settlement of the accrued settlement, for amortizable assets and the adjustments accrued from depreciation or loss of value (OMFP no. 3.055/2009, Order of the ministry of public finance to pass the Accounting regulations as per the European directives, published in the Official Gazette of Romania, part I no. 766 bis of 10.11.2009)

- As per the cost, less the amortization and the adjustments accrued from depreciation, or
- As per the reevaluated value, which is the just value from the date of the balance sheet, less any subsequent accrued amortization and any loss from depreciation accrued subsequently.

It is noticed that the domestic accounting rules consider two moments when the place of the purchase cost, respectively the production cost (considered as historical costs) is considered at the just value: on the date of the balance sheet (when the yearly financial statements are prepared – optionally) and after the recording.

4. THE INFLUENCE OF THE REEVALUATION ON THE COMPANY'S RESULT

Reevaluation is a complex process, often encountered in inflationist economies.

Companies generally evaluate assets as per their historical cost, which does not take into account their current value and thus, distort the position and financial performance indicated in the balance sheet and in the loss and profit account.

According to A.F. Popa, reevaluation contributes to the accomplishment of the goal to present a faithful image of the company and it is one of the ways to correct the shortcomings of the evaluation as per the historical cost⁹.

On the other hand, the decision to reevaluate properties can be seen as the attempt of the company to increase own capitals, increasing artificially the self-financing capacity.

To reevaluate an asset such as tangible and intangible properties means to replace the net accounting value with the just value, that is usually a market value.

Reevaluations must be made regularly to ensure a correlation between the accounting value based on cost and the accounting value based on just value. The frequency of reevaluations depends on the change of the just value, as such tangible properties undergo significant and fluctuating changes of their just value.

The just value of lands and buildings is usually determined by the market based on evaluations usually made by certified evaluators. When there is no possibility to identify a just value based on the market (either because of the specific character of the element or because such type of tangible property is rarely sold), the company must estimate the just value using an approached based on income of on the amortized replacement cost.

While for tangible property, the method of reevaluation requires, as only condition, for the just value to be determined feasibly, for intangible property, there is an additional condition for such just value to be determined related to an active market. The existence of an active market in case of intangible property is an exceptional case. IAS 38 – *Intangible assets*, in art 78, indicates examples of intangible assets for which active markets can be identified

⁹ Popa A.F. – Accounting and fiscality of the company's result, CECCAR Publishing House, Bucharest, 2011

(for instance, taxi licenses, fishing licenses or production shares, transferable free of charge). Given that most part of the intangible properties is unique by their nature, the homogeneity condition is almost always broken.

F. Mousel¹⁰ deems that this restriction of the enforcement of the reevaluation model for intangible property as enforcement of the balance between pertinence and feasibility. The prerequisite of the active market requires for the just value of the asset to be the price made available for the public on such market.

Following the use of the reevaluation based model, there are two situations:

❶ *if the accounting value of an asset is increased following the evaluation*, the increase must be recorded in Other elements of the overall result and accrued on own capitals, as surplus from reevaluation.

The increase must be recorded in the loss and profit account if it compensates a decrease from the reevaluation of the same asset, previously recorded in the profit and loss account.

The surplus from reevaluation included in the own capitals related to an element of tangible property can be transferred directly in the result reported when the asset is de-recorded, which fact involves the transfer of the entire surplus when the asset is disassembled or assigned.

However, part of such surplus can be transferred as the asset is used in the company. In this case, the value of the transferred surplus is the difference between the amortization calculated based on the accounting value of the asset and the value of the amortization calculated based on the initial cost of the asset.

The transfers from the reevaluation surplus in the reported result are not made through the profit and loss account.

❷ *If the accounting value of an asset is decreased following the evaluation*, this decrease must be recorded in the profit and loss account. The decrease must be recorded in other elements of the overall result if the reevaluation surplus has a creditor balance for such asset. The decrease recorded in other elements of the overall result decreases the amount accrued in own capitals as surplus from reevaluation.

The accounting of reevaluations (positive and negative) either in result account or in an account of differences of own capitals' reevaluation (figure no. 1) is identical for the two types of properties (tangible and intangible) and is regulated in articles 39 – 41 of IAS 16 *Tangible assets* and articles 85 – 87 of IAS 38 *Intangible assets*.

From the analysis of figure no. 1, it is noticed that standards IAS 16 and IAS 38 put into practice (not explicitly) the principle of *lower of cost or market*. In fact, the amount of the accrued positive reevaluations which exceed the initial cost of a property never passes

¹⁰ Mousel F. - *Quel impact fiscal suite à l'adoption des normes IFRS par l'Union européenne?*, De Boeck & Larcier s.a., Éditions Larcier, Bruxelles, 2006, pp. 162-166

through the result account. On the contrary, it will affect the accounting result by future amortizations. The new net reevaluated value will be in fact the basis for amortization for further expenses made with the amortization which will be increased. A positive reevaluation this diminishes the accounting result for the rest of the lifespan of the fixed asset. In tax terms, on the contrary, a strict enforcement of the theory of the balance sheet will lead to the increase of the tax result in the first financial year and to a decrease of the tax result in the following financial years¹¹.

As regards the revelation of the tangible assets, the domestic accounting rules have taken over the matters stipulated by the international accounting framework. The difference between the value resulting from evaluation and the value as per the historical cost is indicated in the reevaluation reserve¹², as separate sub-element in "Capital and reserves".

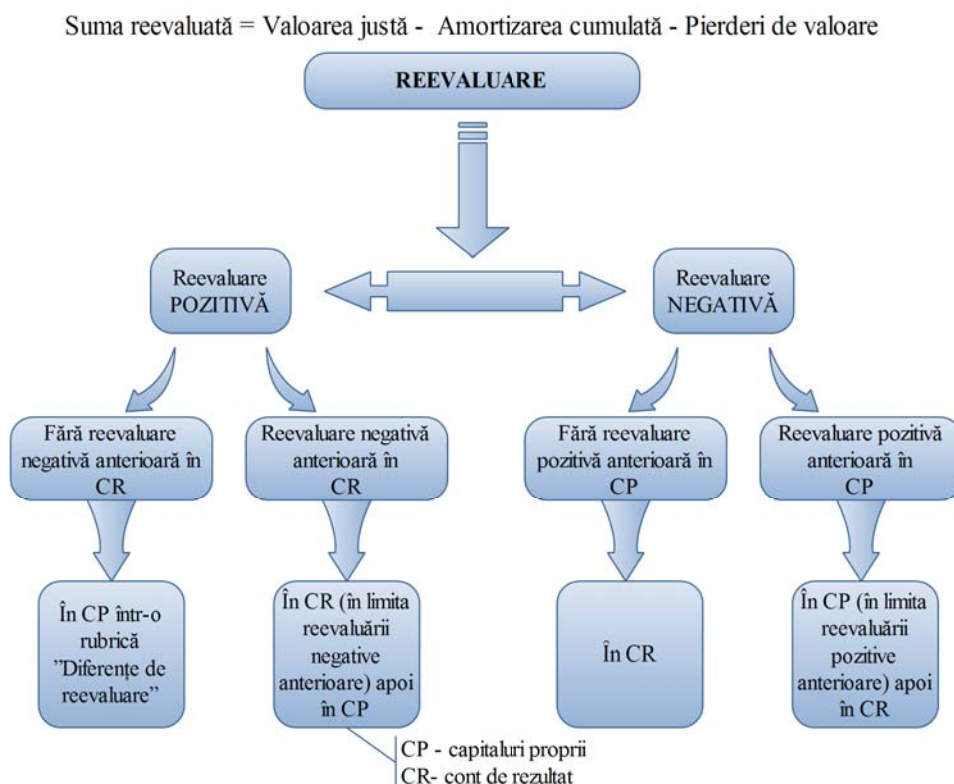


Figure no. 1 – the recording of revaluations of tangible and intangible property

¹¹ Mousel F. - *Quel impact fiscal suite à l'adoption des normes IFRS par l'Union européenne?*, De Boeck & Larcier s.a., Éditions Larcier, Bruxelles, 2006, pp. 157-162

¹² The treatment in tax purposes of the reevaluation reserve must be indicated in the explanatory notes (point 124 of OMFP no. 3.055/2009, order of the ministry of public finance to pass the accounting regulations observing the European directives, published in the Official Gazette of Romania, part I, no. 766 bis of 10.11.2009)

If the result of the reevaluation is an increase compared to the net accounting value, this is treated as follows:

- *As increase of the reserve from reevaluation* presented in the element “Capital and resources” if there wasn’t a previous decrease recorded as asset-related expense; or
- *As income* to compensate the expense for the decrease recorded previously for such asset.

The surplus from reevaluation included in the reevaluation reserve is capitalized by direct transfer in reserves when the surplus is a gain. The gain is considered obtained when the assets is removed from records. However, part of the gain can be obtained as the asset is used by the company. In this case the value of the transferred reserved is the difference between the amortization calculated based on the reevaluated accounting value and the value of the amortization calculated based on the initial cost of the asset.

Any part of the reevaluation reserve cannot be distributed directly or indirectly, save for the case when the reevaluated asset was sold and in this case the surplus from reevaluation is actual gain.

The reduction or cancelation of any provision or reserve previously settled is included in the taxable income, irrespective if the reduction or cancelation is owed to the change of the destination of the provision or reserve, to the distribution of the provision or reserve to participants, to liquidation, merger of the taxpayer or for any other reasons.

If the result of the reevaluation is a decrease of the net accounting value, it is treated as expense for the entire value of depreciation when the reevaluation reserve does not record a amount regarding such asset (surplus from reevaluation) or as decrease of the reevaluation reserve indicated in the element *Capital and reserves*, with the minimum between the value of such reserve and the value of decrease and the eventual uncovered difference is recorded as expense.

The operations regarding the reevaluation of tangible assets are recorded in accounting using two main methods:¹³:

- ❶ *the method of gross value*, according to which both the gross value of properties and the accrued amortization are reevaluated simultaneously;
- ❷ *the method of net value*, which involves the elimination from the accounting value of the accrued amortization and of the adjustments for depreciation – reevaluation of the unamortized value;

The domestic accounting rules observing the European directives indicate: the plus or minus arising from the reevaluation of the tangible properties must be recorded in the debt or credit of account 105 "Reserves from reevaluation". The recording of reevaluation reserves must be made for each tangible asset and for each reevaluation operation

¹³ Mateș D., Dogariu C., Bulc M. - Implicații fiscale ale reevaluării și amortizării imobilizărilor la entitățile economice, Revista Contabilitatea, Expertiza și Auditul afacerilor, no. 12, December 2008, CECCAR Publishing House, Bucharest, 2008

performed. The decrease of the reevaluation reserves can be made only within the limit of the existent balance, related to such property. The reserves from the reevaluation of the tangible property cannot be distributed (OMFP no. 3.055/2009, point 246, art. 1).

As regards the subsequent evaluation, after the initial recording as per the just value of the financial assets, it is treated in articles 45 and 46 of IAS 39

Financial instruments: recognition *and measurement*. For this evaluation, financial assets are divided into four classes:

- Financial assets at their just value and whose variations of the just value passes through the profit and loss account and which regroup: the financial assets held for trading and all derivatives;
- Financial assets held to maturity;
- Loans and receivable originated by the entity;
- Financial assets available for sale, which are a residual class;

The subsequent evaluation of the financial assets, including the derivatives which are assets, must be made at the just value, without settlement of the transaction costs which can be borne for sale or other assignment, with few exceptions. As regards the subsequent evaluation of financial debts, the company must evaluate them using the method of the actual interest, with few exceptions stipulated by the rules. Therefore, two major elements guide the accounting of the just value: the purpose pursued by the company holding the instrument – speculations or capital gain by profitable sale or obtaining income and yield on maturity – and the feasibility of the determination of the asset's just value.

The just value of the own capital instruments without price listed on an active market and of the related derivatives is determined credibly if the variation in the range of the feasibly estimations of the just value is not significant for such instrument or if the probabilities of various estimations from such range can be credibly evaluated and used in the estimation of the just value. It is noticed that the issuers of the international accounting rules are convinced that in cases where a feasible just value cannot be determined are rare. In such case, the reevaluation of the asset at the amortized cost has been stipulated. Article 55 of IAS 39 – Financial instruments: recognition and measurement indicate where losses and profits from the variation of the financial asset's just value are recorded:

1. In the result account;
2. Directly in an account of own capitals;

IAS 39 *Financial instruments: recognition and measurement* provide that a loss generated by a financial asset recorded at the just value was recorded directly in the own capitals and there is an objective clue that such asset is depreciated, the accrued net loss must be transferred from own capitals into the loss and profit account for that financial year.

The value of the loss to be transferred is determined based on the formula from figure no. 2¹⁴.

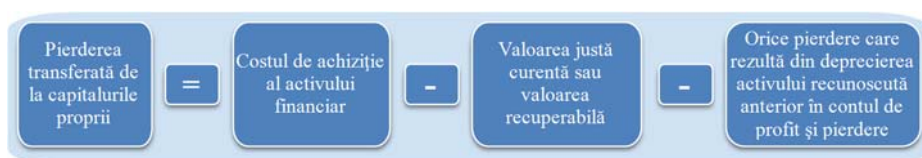


Figure no. 2 – Loss transferred from own capitals into the loss and profit account

Summarizing those mentioned above, it can be noticed that, although simple at first sight, the accounting rules regarding properties have certain practical difficulties. They allow the company management to decide on the accounting method and thus we can notice divergent accounting practices in different companies for the same economic situation.

5. CONCLUSIONS

As aforementioned, we can notice the assimilation by the domestic accounting rules of the main characteristics of properties, as presented by the international accounting rules.

Summarizing those presented above, **a view** can be issued to indicate that to determine if a property meets the first criterion of recognition as asset, a company must determine the certainty of the flow of future economic benefits. The existence of the certainty that the company will generate future economic benefits requires for the company to gain the advantages of such asset and to bear the related risks. This assurance is usually available when the company has taken over the asset related risks and advantages. The second criterion for recognition is considered met, the exchange transaction acknowledging the purchase of the asset also identifies its cost. In case of a fixed asset build by the company, an objective measurement of the cost can be made by transactions with third parties for the purchase of materials, labor and other inputs used in the construction process.

At the same time, the need for comparability must not become a hindrance in implementing new accounting policies when they are more relevant and more credible.

It can be said that there is not objective result given the current context of normalization which offers multiple options to reflect the same transaction. The selection of an option which involves the elimination of another option affects the financial statements and the accounting result.

¹⁴ CECCAR – Practical guide for the enforcement of the accounting rules observing the European directives, passed by the order of the ministry of public finance no. 3.055/2009 / CECCAR – National Institute for the Continuous Professional Development, CECCAR Publishing House, Bucharest, 2010

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