

ELIMINATION OF PARTIALLY AMORTIZED FIXED ASSETS

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The present paper analyzes the accounting and fiscal aspects of the elimination operation for tangible fixed assets that are partially amortized. For this purpose, we have started from the definition of the elimination operation and observations have been made regarding the capacity to approve the elimination of fixed assets. Two ways have been presented to solve the operation of removing fixed assets that have not been fully amortized from accounting. A fiscal analysis has been outlined regarding: the contribution to the environment fund, adjusting the value added tax and the fiscal deductibility of expenses, that can be diminished with the value that has not been amortized.

Key words: elimination, tangible fixed assets, VAT adjustment, fiscally deductible, tax, contribution.

General Notions

Elimination is a complex way of exiting consisting of operations such as demolitions, disassembly of tangible fixed assets, capitalization of assemblies, subassemblies, spare parts and resulted materials.

According to the dispositions of art. 21 of Law no. 15/1994, republished, the elimination of the activity of a fixed asset is made with the approval of the board of directors of the economic entity. Within the month following the approval of the elimination, for the fixed assets for which the entry value has not been fully recuperated, the calculation of the amortization will be ceased.

After the approval of the elimination of the fixed asset, the company is going to proceed to its capitalization. The capitalization procedure is approved by the entity that has approved its elimination.

The capitalization of the components resulting from the elimination of fixed assets may be made by one of the following methods:

- a) the sale of the resulting components, in their present state;
- b) using the resulted components for the creation or completion of other fixed assets;
- c) the capitalization of the resulted components, by turning them into recoverable materials.

The elimination of fixed assets is made by an elimination committee appointed by decision of the administrative entity that has approved the elimination. Upon elimination, the company proceeds to the disassembly of the fixed assets and to the capitalization of the resulted components by either selling them or using them as spare parts within the company. Establishing the value of the resulted components is the responsibility of the elimination committee.

Upon elimination, the fiscal value that has not yet been amortized is taken into consideration; this value represents the difference between the fiscal entry value and the value of the fiscal amortization, out of which the amounts resulted from their capitalization are deducted.

Accounting aspects

The following are recorded in accounting: • the elimination of the tangible fixed assets from the accounting evidence, • the expenses corresponding to the demolition, or disassembly operations, • material values resulting from the elimination. The recording value of the fixed assets that were eliminated from accounting by elimination can be partially or fully amortized.

Example: The elimination of a partially amortized tangible fixed asset.

A company eliminates a means of transport with an entry value of 15.000 lei, normal working life of 5 years, 80% amortized. The expenditure incurred with the elimination is equal to 5.000 lei. From the disassembly, the following have resulted: spare parts amounting to 500 lei and metallic waste amounting to 900 lei. The spare parts are received in the unit's storage facility, and the metallic waste is sold to an authorized collector.

Solution:

<i>lanation:</i>	<i>Exp</i> <i>xx</i> <i>Expense</i> <i>accounts</i>	<i>6</i>	<i>3x</i> <i>x</i> <i>Inventories</i>	<i>28x</i> <i>Amortizations</i> <i>regarding</i> <i>fixed assets</i>	<i>xx</i> <i>Third</i> <i>parties</i>
<i>enditure</i>	5.000		500	80	4.420
<i>brought on by</i>					
<i>the</i> <i>elimination</i>					
<i>aterials</i> <i>resulted</i> <i>fro</i> <i>m the</i>		<i>302</i> <i>4 Spare</i> <i>parts</i>		<i>3021</i> <i>Auxiliary</i> <i>materials</i>	<i>7588</i> <i>Other</i> <i>operational</i> <i>incom</i> <i>e</i>
<i>Dis</i> <i>assembly</i>	500			900	1.400
<i>sion 1</i>					
		<i>302</i> <i>4 Spare</i> <i>parts</i>		<i>3021</i> <i>Auxiliary</i> <i>materials</i>	<i>2133</i> <i>Mean</i> <i>s of transport</i>
<i>sion 2</i>	500			900	1400

Commentaries: In specialized literature a solution arose according to which the metallic waste resulting from the elimination should be reflected in the debit side of account 346, "Residual products".

In regard to this situation, we believe that using account 346 is adequate for companies who perform either of the two as a main activity: production or processing of ferrous or non-ferrous materials. As regards the recording of the materials resulted after the elimination by debiting the inventories account in correspondence with the credit side of an income account, we believe that it is more adequate to adjust directly the value of the means of transport that is not amortized, with the equivalent of the materials resulted from the elimination (formula: $3xx = 21x$).

The respective alternative offers the possibility of eliminating the income account from the accounting formula for the recording of materials obtained after the disassembly and is supported for the following reasons: (1) the condition for recognizing an income are not met, because an input of materials is reflected, thus the opposite of transferring the property right; (2) the value recovered through an input of materials diminishes the expenditure with the value that has not been amortized ($6583 = 21x$).

Eliminating the means of transport from the accounting, by taking into account the cumulated amortization, amounting to $15.000 \text{ lei} \times 80\% = 12.000 \text{ lei}$. In the first version, the remaining value is $15.000 \text{ lei} - 12.000 \text{ lei} = 3.000 \text{ lei}$.

<i>Explanation</i>	<i>6583 Expenses</i> <i>regarding transferred</i> <i>assets and other equity</i> <i>operations</i>	<i>2813 The amortization</i> <i>of installations, means</i> <i>of transport, livestock</i> <i>and plantations</i>	<i>2133 Means of transport</i>
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<i>The outflow of the means of transport that was incompletely</i>	3.000	12.000	15.000
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In the second version, the record value was reduced with 1,400 lei.

<i>Explanation</i>	<i>6583 Expenses regarding transferred assets and other equity operations</i>	<i>2813 The amortization of installations, means of transport, livestock and plantations</i>	<i>2133 Means of transport</i>
<i>The outflow of the means of transport that was incompletely</i>	1.600	12.000	13.600

The sale of the metallic waste, under the hypothesis that the sale price is 900 lei, the supplier and the beneficiary are legal persons that are registered for VAT purposes:

<i>Explanation</i>	<i>461 Various debtors</i>	<i>7588 Other operational income</i>
<i>Sale invoice</i>	900	900

Observation 1: According to the dispositions of the Fiscal Code, art. 160, the delivery of metallic waste is part of the program to simplify procedures regarding VAT. Starting with December 1st 2007, for the invoices issued for deliveries for which simplification measures regarding VAT are applied, suppliers are obligated to add the notification "reverse taxation", without writing the corresponding tax.

Observation 2: In the sale invoice of the metallic waste the contribution to the environment fund is written, calculated by applying the 3% percentage to the income generated by the sale of ferrous and non-ferrous metallic residue. This contribution is calculated, withheld and declared by collector agents, authorized under the conditions specified by OUG no. 16 of January 26th 2001, republished, regarding recyclable industrial waste management (M.O. no. 104 din February 7th 2002).

<i>Explanation</i>	<i>6021 Expenses with auxiliary materials</i>	<i>3021 Auxiliary materials</i>
<i>The auxiliary materials sold are eliminated from</i>	900	900

For the analyzed case, the contribution is 900 lei x 3% = 27 lei, and it is withheld and transferred to the collector agent.

<i>Explanation</i>	<i>5311 Cash</i>	<i>635 Expenses with other taxes, fees and assimilated transfers</i>	<i>461 Various debtors</i>
<i>Receipt of cash payment for the value of the metallic waste sold minus the 3%</i>	873	27	900

Tax adjustment

The provisions of art. 149 (4) letter d) of the Fiscal Code impose the adjustment of the tax which was initially deducted in the situation where the capital asset ceases to exist, with the exception of the cases in which it is proved that the respective capital asset was the object of a delivery or of a delivery to self for which the tax is deductible.

The adjustment is performed only once for the entire period of adjustment remaining, including the year in which the obligation for adjustment occurs, and amounts to 1/5 or, as the case may be, 1/20 a year, of the value of the tax initially deducted.

Example 1: A taxable person buys a fixed asset whose normal working life is 7 years, on November 30th 2007, costing 100,000 lei + VAT (19% = 19.000) and deducts 19.000 lei. On December 2nd 2009, the fixed asset is eliminated.

12. 2007	2008	2009	2010	2011	2012	2013	11 2014
					<i>1/5</i>	<i>1/5</i>	

Fig. 1 Adjustment period remaining 5 years – 3 years including the year of elimination

In this case, there is an adjustment in favor of the state, of two fifths of 19.000 lei, i.e. 7.600 lei.

In the month that the adjustment is made, the following recording is also made:

Explanation	635 Expenses with other taxes, fees and assimilated transfers	4427 Collected VAT
VAT in favor of the state	7.600	7.600

The amount of 7.600 lei is reported in the VAT statement, line 24: “Adjustments for equity goods”

Observation: The adjustment of the tax is not performed in case of equity goods that have been destroyed by natural calamities or in case of force majeure. Also, the adjustment is not performed in case it is proven that the respective equity good has been the object of a delivery or a delivery to self for which the tax is deductible.

According to the Methodological Norms for the application of art.149 of the Fiscal Code “the adjustment of the deductible tax corresponding to equity goods is not performed, in case the amount resulting subsequent to the adjustment is smaller than 1,000 lei”.

Profit Tax

According to the Methodological Norms for the application of the Fiscal Code, the expenses recorded as a result of eliminating a fixed asset with a fully amortized entry value are expenses that are performed with the purpose of generating taxable income. We believe that these dispositions refer to expenses generated by the disassembly of fixed assets.

Considering the provisions of art. 21 of the Fiscal Code, according to which: “In order to determine the taxable profit, only expenses made for the purpose of generating taxable income, including those regulated by valid legislation are considered deductible.”, we believe that, in case of fixed assets that have not been fully amortized, the difference between the value remained and the value of the materials resulting from the disassembly is a non-deductible expense upon the calculation of the taxable profit.

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