

# ACCOUNTANCY OPTIONS FOR TANGIBLE ASSETS

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*Abstract: The contemporaneous evolution of the accountancy is characterized through strong tendencies of international accountancy normalization and adapting. This signifies that in most countries the accountancy is supported by common rules and that it drafts synthesis documents whose models are identical for all economic entities. Through the subject approached, this article has in view as main goal presenting the main accountancy operations the companies have as regards acknowledging, assessing and reassessing the tangible assets. The accountancy options concerning the issues mentioned are analyzed with the help of means specific to the financial accountancy in the context of applying the International Accountancy Standards and the International Financial Reporting Standards. The practical examples within this paper will have as role emphasizing the fact that the companies can now choose the most favorable option among the accountancy options allowed by the international standards.*

*Key words: long term assets, recognizing, assessing, amortization, standard, cost, value.*

## **Defining and recognizing the tangible assets**

In the circumstances of applying in Romania the International Financial Reporting Standards, the accountancy options as regards long term assets must be analyzed according to the provisions of IAS 16 “Tangible assets”. This standard is applicable to the tangible assets held by an entity. For the tangible assets held by an entity in order to be sold, the standard mentioned will not be applied but there will be taken into account the content of the International Financial Reporting Standard IFRS 5 “Tangible assets held for selling purposes and interrupted activities”. The biologic assets corresponding to the agriculture activities are comprised in the application domain of IFRS 41 “Agriculture” and the exploitation and assessment assets are subject matter of IFRS 6 standard “Exploiting and assessing mineral resources”. The long term assets created or developed by an economic entity for subsequent usage as real estate investment are regulated by IAS 40 “Real estate investments”. For studying the accountancy options concerning the tangible assets there will also be analyzed the provisions of other standards such as: IAS 23 “Costs of being indebted”, IAS 36 “Assets depreciation”, IAS 17 “Leasing”, IAS 20 “Including in the accountancy the governmental subsidies and publishing the information connected to governmental assistance” and IAS 8 “Accountancy policies, accountancy estimations and errors”.

A tangible asset is a long term asset held in order to be used for producing goods or for supplying services, in order to be rented to third parties or for administrative purposes and which it is expected to be used for a period of time greater than one year. An element of the tangible assets is recognized as being an asset if the following two conditions are fulfilled at the same time: the asset will generate future economic benefits for the entity; the asset’s cost can be credibly assessed.

An economic entity assesses all costs of its tangible assets when they occur according to the principle of acknowledging. These costs imply initial costs for purchasing or building some elements of tangible assets, as well as the costs incurred subsequently for adding or replacing a part of that long term asset. The costs for maintaining and current repairing the tangible assets are not acknowledged in the accountancy value of those elements because they do not observe the two conditions for acknowledging them as assets.

## Assessing and reassessing the tangible assets

An element of the tangible assets which is acknowledged as an asset will be initially assessed according to its price that can be, according to the manner that element entered the patrimony, purchasing price or production price. The purchasing price for the tangible assets comprises:

- buying price, including the custom duties and the non-recoverable charges, after deducting the commercial discounts and the abatements;
- any costs that can be directly assigned to bringing the asset to the location and in a condition required for it to operate in the manner desired by the management;
- the initial estimation of the costs for demounting and moving the element and for restoring the location where it will be moved;
- indebted costs that can be directly assigned to purchasing an asset according to the alternative treatment allowed in IAS 23 “Costs of being indebted”.

If paying the purchasing price is postponed over the crediting term, the difference between the cash price and the total payment made is acknowledged as interest for the crediting period of time aside the situation when such an interest is acknowledged in the accountancy value of the long term element according to the alternative treatment allowed in IAS 23 “Costs of being indebted”.

The production price for a tangible asset comprises: costs for raw materials and materials required for the production; costs for salaries of the staff directly involved in the production, as well as any contributions corresponding to them; share of the indirect production expenses, rationally assigned on the production costs; initial estimation of the demounting and moving costs as regards the element and for restoring the location where it will be moved; indebted related costs that can be directly assigned to purchasing an asset according to the alternative treatment allowed in IAS 23 “Costs of being indebted”. Examples of costs that are not included in the price of the tangible asset are [6, p.910]: costs for opening a new plant; costs for introducing a new product or service (including the costs for advertising and promotional activities); costs for directing the activity in the new location, including the costs for preparing the staff; administrative costs; initial exploitation losses, such as the ones registered at the time of increasing the demand for the product produced by that tangible asset; costs for relocating or partial or full reorganizing the entity’s activities; abnormal costs for waste, labor or other resources registered for building on its own an asset; costs registered for remaking functional an asset or for ones resulted from exploiting it below its regular capacity.

The initial value of some tangible assets used by a lessor within a leasing contract is determined according to the rules set out by IAS 17 “Leasing”. Thus, the tangible assets are registered either according to their honest value provisioned in the contract, either according to the updated value of the minimal payments provisioned in the contract, if the latter’s value is lower than the honest value. The accountancy value of the tangible assets can be diminished by the size of public subsidies according to the standard ISA 20 “Including in the accountancy the governmental subsidies and publishing the information connected to governmental assistance”.

Applying in the Romanian accountancy the aspects connected to the initial price of a tangible asset, dealt in IAS 16, will be emphasized through the following two examples:

*Example 1:* An economic entity in the wood industry purchases a plant in the following conditions:

- price negotiated with the supplier lei 80 000;
  - transport, mounting and packing expenses invoiced by the supplier lei 2 000;
  - costs for arranging the production section in order to mount the plant invoiced by a specialized company lei 1 000;
  - costs for partially reorganizing the activity of that entity as consequence of introducing the new plant 900 lei;
  - the architect’s fee lei 800;
  - costs for training the staff that will operate that plant lei 1500.

The costs elements	The purchasing price elements	The period related expenses
Price negotiated with the supplier	80 000	
Transport, mounting and packing expenses invoiced by the supplier	2 000	
Costs for arranging the production section in order to mount the plant invoiced by a specialized company	1 000	
Costs for partially reorganizing the activity of that entity as consequence of introducing the new plant		900
The architect's fee	800	
Costs for training the staff that will operate that plant		1 500
Total	83 800	2 400

**Table 1: Assigning the cost elements**

Registering the patrimony entrance for the plant according to its purchasing price assumes:

2131 "Technological plants"	=	%	83 800
		404 "Long term assets suppliers"	82 000
		401 "Suppliers"	1 800

*Example 2:* During a financial year a company produces on its own a building incurring the following expenses:

- raw materials lei 60 000; supplies lei 5 000;
- manual labor expenses lei 12 600;
- expenses for maintaining and operating the plants (indirect expenses) rationally assigned on the production cost lei 4 000;
- expenses for the interest corresponding to a loan contracted for building the real estate lei 1 000 (according to the alternative treatment allowed in IAS 23 "Costs of being indebted");
- expenses for salaries as regards the administrative staff lei 3 000.

After analyzing the expenses mentioned and after observing the regulations in IAS 16, we can notice that in the production price cannot be included the salary expenses concerning the administrative staff. As a consequence, the building's production cost is:

$$60\,000 + 5\,000 + 12\,600 + 4\,000 + 1\,000 = 82\,600 \text{ lei.}$$

Receiving the building will be registered in the accountancy thus:

212 "Buildings"	=	722 "Incomes from producing tangible assets"	82 600	82 600
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A tangible asset can be purchased through a total or partial exchange with another tangible asset of the same type or with another asset. The cost for such a tangible assets element is assessed, according to the circumstances, to its honest value or to the accountancy value of the asset assigned. The honest value will be used only if the exchange transaction is not commercial. If the tangible asset received is not assessed to its honest value then it will be assessed according to the accountancy value of the asset assigned. The economic entity determines if the exchange transaction is commercial through analyzing the degree in which the future treasury flows are forecasted to change as result of the transaction. An exchange transaction is commercial if:

- a) the value, the frequency of the cash flows and the risk connected to them generated by the asset received are different of the ones of the transferred asset; or
- b) the using value of a part of the entity's activities influenced by the transaction is modified as a result of the exchange and
- c) the differences resulting in a) or b) are significant as against the honest value of the exchanged assets.

There must be emphasized that in the Romanian accountancy practice there are not observed the provisions of IAS 16 as regards exchanging assets. As a consequence, the assets exchange is reflected through simultaneous buying and selling operations.

*Example:* An economic entity exchanges an "A" vehicle assessed to an honest value of lei 37 000 for a "B" vehicle assessed for lei 40 000. The registration value (initial cost) of the "A" vehicle is lei 48 000 and the amortization registered until the date of the transfer is lei 27 000. Registering the exchange upon observing the provisions of IAS 16 is made thus:

- net accountancy value of the "A" vehicle = 48 000 – 27 000 = lei 21 000;
- amount to be paid in order to compensate the honest value difference = 40 000 – 37 000 = lei 3 000;
- value with which it is diminished the initial cost of the vehicle = 48 000–40 000 = lei 8 000;
- income obtained of the exchange made 40 000–21 000–3 000 = lei 16 000.

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2813" Amortizing the plants, the transportation means, the animals and plantations"	=	%	27 000
		2133 "Transportation means"	8 000
		5121 "Accounts in lei with banks"	3 000
		7583 "Incomes from assigning the assets and other capital operations"	16 000

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After its initial registration as asset, a tangible asset can be registered in the accountancy registers either according to its cost less the accrued amortization and any loss in the accrued depreciation, either through reassessing. Reassessing the tangible assets held by a company will be made on a regular basis in order to ensure that the accountancy value is not too much different of the one determined through using the honest value on the balance date. The value resulting from reassessing a tangible asset is its honest value on the reassessment date less the subsequent cumulated amortizations and the subsequent cumulated value losses. The value losses must be analyzed according to IAS 36 "Assets depreciation".

The honest value of the lands and buildings is, regularly, determined by qualified experts. This honest value is, in general, the market value. The market value is the estimated amount for which a real estate (a land or a building) will be exchanged, on the assessment date, between a decided buyer and a decided seller, through a transaction having an objectively determined price, after an adequate marketing activity, in which the parties acted knowingly, prudently and without constraints. The estimated amount for determining the market value is the best price that the seller can obtain, in reasonable manner, and the most favorable price that the buyer can obtain. A decided buyer is a buyer being motivated, but not constrained to buy, a buyer that is neither anxious to buy, neither determined to buy at any cost, a buyer that purchases according to the realities of the present day market and not of an imaginary market. A decided seller is neither anxious nor constrained to sell, nor forced to maintain a certain price. The honest value of the production plants is, usually, their market value determined through estimation means. For the strictly specialized tangible assets that are not subject matter of some regular transactions, the honest value is identified, most times, with its replacement costs, less the amortizations.

An asset cannot be reassessed in an isolated manner. The reassessment must be applied to the ensemble of assets in the same category, in other words, for all assets having an identical type and using manner. Through reassessing the assets in the same category, it is avoided at the same time a greater heterogeneity in the manner of assessing different issues in the financial statements. When the accountancy value of an asset will increase as a consequence of a reassessment, the growth also has as effect increasing the reassessment reserves as elements of the own capital. To the degree a positive reassessment compensates a

negative reassessment of the same asset, previously to including it for expenses in the accountancy register; the positive reassessment must also be registered in the accountancy books for incomes. When the accountancy value of an asset is diminished, as a consequence of a reassessment, this reassessment must be registered in the accountancy books as expenses. Although, there must be for a negative reassessment to be directly charged to the corresponding reassessment reserves to the degree such a reduction would not surpass the size of the reassessment reserves concerning the same asset. The reassessment reserve comprised in the own capitals can be transferred, in a direct manner, to the result carried forward, when the reassessment reserve is obtained. The entire reassessment reserve is obtained on the occasion of removing from operation or assigning the asset. Still, a part of the reassessment reserves can be obtained to the degree the asset is used by an economic entity. In such a case the size of the reassessment reserves obtained is the difference between the amortization relying on the reassessed accountancy value of the asset and the amortization relying on the entry cost of the asset. [2, p. 101].

As regards reassessing tangible assets, the problem arisen would be the manner for dealing the amortization on the reassessment date. A method would be re-calculating the amortization pro-rated with the gross accountancy value of the asset thus that after the reassessment the accountancy value of the asset to be equal to its reassessed value. The second method assumes eliminating the amortization of the gross accountancy value of the asset, thus performing only the reassessment of the net accountancy value. This method is often used for buildings.

*Example:* An economic entity holds buildings that have been purchased for a price of lei 900 000 and the registered amortization until the reassessment date is lei 300 000. The honest value determined by the accountancy experts is lei 1 000 000.

According to the first reassessment method:

- it is calculated the ratio between the honest value and the net accountancy value of the buildings:

$$1\ 000\ 000 / (900\ 000 - 300\ 000) = 1,66$$

- - the cost of the long term assets and the cumulated amortizations are reassessed through applying the growth coefficient which leads to:
  - the reassessed cost of the constructions:  $900\ 000 \times 1,66 = \text{lei } 1\ 494\ 000$ ;
  - reassessed cumulated amortizations:  $300\ 000 \times 1,66 = \text{lei } 498\ 000$ ;
  - value that can be amortized after the reassessment:  $\text{lei } 996\ 000$ .
- - registering the reassessment operations:

212 "Buildings"	=	%	594 000	
				198 000
				396 000

According to the second reassessment method:

- - it is annulled the registered amortization and it is diminished the amortization size of the value of buildings costs:

2812 "Amortizing buildings"	=	212 "Buildings"	300 000	300 000
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- - reassessing the constructions:

212 "Building"	=	105 "Reassessment reserves"	396 000	396 000
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- - value that can be amortized after the reassessment =  $900\ 000 - 300\ 000 + 396\ 000 = 996\ 000$  lei.

After analyzing the two methods it is noticed that any of them results in the same value that can be amortized after the reassessment.

As regards the reassessment, the Anglo-Saxon accountancy has a series of particular characteristics as against the international standards' regulations.[5, p. 110] For this there must be mentioned that in Great Britain a complete reassessment of a tangible assets category can be made every five years and an interim

assessment can be made during the third year. If the full reassessment is made by an internal assessor, then it must be reviewed by an independent assessor through sampling.

## Conclusions

The economic entities must apply the accountancy policies and options as regards the tangible assets in order to supply a clear, complete and trustworthy image of the long term assets in the financial statements. For each long term assets category the financial statements will supply the following information: assessment basis for determining the entry accountancy value, used amortization methods, using durations, gross accountancy value and the cumulated amortization (together with the losses accrued from the depreciation) at the begin and at the end of the period. In order to reconcile the accountancy value at the beginning and at the end of the management period, it is recommended to be made reference to information on: the long term assets' entries, the assets held for selling purposes according to IFRS 5, increasing or diminishing during the period of time and resulting from reassessment, the evolution of depreciation related losses, amortization, other modifying. The existence and the value of the tangible assets created as security, mortgage, or granted as guarantee for certain debts of the entity will be mentioned separately in the financial statements. The economic entities must not neglect the value of the long term assets in progress of being purchased or in progress of being built. For this, we will include in the financial statements the value of the contractual obligations for purchasing some tangible assets and the value of the costs acknowledged in the accountancy value of a tangible asset during its creation.

In this article has been approached the subject of reassessing the tangible assets, emphasizing on the two methods for managing the amortization on the reassessment date. After analyzing the examples supplied it is noticed that both methods generate the same amortizable value after reassessment. No matter if one method or the other will be chosen, the economic entity will have to supply, in its financial statements, the following information: date when the reassessment will enter in force, whether the entity employed an independent assessor, the significant methods and assessments applied for estimating the honest value of the elements, the reassessment excess, thus identifying the modifying corresponding to the period of time and the limitations as regards distributing it to the shareholders. For each reassessed category of tangible assets it is necessary to mention the accountancy value that would be obtained if the cost model would be applied.

We must take into account that improving a company's performances involves the operative and as exact as possible measuring the efforts and the effects, as well as efficiently using the tangible assets. Organizing and leading the accountancy management of the tangible assets relies more and more on careful researching the structure and dynamics elements, but especially on decoding the evolution tendencies of the phenomena that occur in the company and in its external environment. An economic entity will be able to change its accountancy option as regards the tangible assets' elements only if it will prove that the new option will have an important effect in the current period of time or in the next periods. The main effect of adopting the new option must be more accurately and more authentically presenting the tangible assets in the financial statements.

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