BALANCE SHEET EVALUATION OF TANGIBLE ASSETS. GENERAL OR ALTERNATIVE RULES – REEVALUATION?

Gurău Mariana
Nicolae Titulescu University, Bucureşti, Faculty of Economics, Calea Văcăreşti, Nr. 185, Sector 4, Bucureşti, cod 040051. mmgurau@gmail.com, tel. 0741147087
Tudorache Saveta
Nicolae Titulescu University, Bucureşti, Faculty of Economics, Calea Văcăreşti, Nr. 185, Sector 4, Bucureşti, cod 040051. tel. 0741147087
Bratu Anca
Universitatea din Bucureşti Facultatea de Administraţie şi Afaceri B-dul Regina Elisabeta nr. 4 - 12, sector 1, Bucureşti, România bratuanca@yahoo.com

For subsequent to initial recognition evaluation, an entity could choose one of the following models: model of determining cost or model of re-evaluation called by accountancy regulation, OFMP 1752/2005, alternative rules of evaluation.
In conformity with re-evaluation model (based upon right value), initial accounting value is substituted by re-evaluated value represented by right value on re-evaluation date from which any prior cumulated amortization and any cumulated loss of depreciation are subtracted. The present paper has as a purpose the analysis and emphasis of principles and rules concerning re-evaluation of tangible assets by reference to accountancy regulation in accordance to European directives. As well as, through study cases, it will be exemplified the reflecting in accountancy of operations concerning re-evaluation.

Key words: evaluation, tangible assets, historic cost, re-evaluation, right value.

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Balance sheet evaluation of tangible assets.
Introduction

Evaluation of tangible assets is subscribed to general principles of evaluation. Evaluation is the process through which are determined the values upon the structures of financial situation will be recognized in the balance sheet and in the profit and loss account. This implies choosing certain evaluation bases.
The most used evaluation base by enterprises is the historic cost. This is usually combined with other evaluation bases.
Reported to moments of accomplishing evaluation of elements in financial situations we limit the following:
- entering evaluation;
- exit evaluation;
- inventory evaluation;
- balance sheet evaluation.

Rules of subsequent evaluation (at balance sheet) of tangible assets:
Evaluation at exercise completion (at balance sheet) is accomplished in the purpose of preparing yearly financial situations.
Immobilizations are evaluated and reflected upon the yearly financial situations to the value of entering in concordance with inventory results.
The accounting value at balance sheet date is determined on evaluation rules basis of subsequent to initial recognition. It is the case of bodily actives for which accounting values of entering can be modified on life extension of the active.
For evaluation subsequent to initial recognition evaluation, such for evaluation on balance sheet date, an entity can choose one of the following models: the model of determining cost (basic

treatment) or the model of re-evaluation called by accountancy regulation, OMFP 1752/2005, rules of alternative evaluation.

Model based on cost:
Initially, a tangible assets is recognized in accountancy at acquisition cost, cost of production, value of contribution or right value in terms of entering manner.
Proper to this model, a tangible assets must be presented in the balance sheet at net accounting value, calculus represented by active cost (entering value) less the cumulated adjustments of value (any cumulated amortization and any cumulated loss of depreciation). Thus it is obtained the accountancy values recognized in balance sheet.
International standards of accountancy do not use the collocation “net value”, the latter being replaced with “accountancy value”.
To the applying of the model based on cost, the cost registered active, less any cumulated amortization, with the necessity of deduction of any adjustment for depreciation, for presenting the active at its recoverable value.
Adjustments may appear when the accounting value of an active could not be recovered economically from future economic activity, as a consequence to limiting production for commercial reasons. For such situations, IAS 16 “Tangible assets” and IAS 36 “Actives depreciation” demand the accounting value reduction registered by recoverable value to be registered as an expense concerning adjustments for depreciation.
Loss by depreciation is calculated as a difference between accounting value and recoverable value.
Recoverable value of an active is the biggest value from right value 9from which cost necessary to sales are subtracted) and use value.
Use value is the actualized value of cash flux which is foreseen to be obtained by use of respective active and from its sale at the end of useful life period.
Estimating value of use of an active requires covering the following steps:
- estimation of future entering and exit of cash generated by the continuous use of active and yielding the latter;
- applying proper rate of actualization of these future treasury fluxes.

As a consequence of applying **accounting basic treatment** tangible assets will be presented as such:

A) in the balance sheet:
- in the group of immobilized actives, tangible assets will be registered at cost, less any cumulated amortization and any cumulated loss of depreciation;
- in the group of own assets, the result of exercise will be registered with values of cumulated amortization and cumulated depreciation in the course of the financial exercise;

B) in the account of profit and loss:
- in exploitation expenses frame – value adjustments concerning tangible assets – such as exploitation expenses concerning amortization of immobilization with the value of cumulated amortization during the financial exercise, exploitation expenses concerning adjustments for immobilization depreciation with the value of constant depreciation at the end of financial exercise and/or income from adjustments for immobilization depreciation with the value of depreciation reengagement at the end of financial exercise.

C) in the explanation notes:
1. separately, for each group of tangible assets, it is presented:
a) value at the beginning of financial exercise;
b) developments during the financial exercise;

c) decrease during the financial exercise;
d) tangible assets value at the end of financial exercise.
2. separately, for each group of tangible assets, the amortization is presented as such:
a) value at the beginning of exercise;
b) development during the exercise;
c) decrease during the exercise;
d) value of amortization at the end of financial exercise.
3. in the case of interest including in actives value obtained by own production, information concerning are presented.

Model of re-evaluation (model based upon right value).

Economic entities can choose model based upon right value proceeding to re-evaluation of tangible assets at the end of financial exercise, thus the re-evaluated value to reflect in financial situations established for that specific exercise. After the re-evaluation the afferent amortization of tangible assets is recalculated and will be registered in accountancy to the beginning of next financial exercise.

According to this model, initial accounting value is substituted by the re-evaluated value represented by:

- right value at due date of re-evaluation
- any prior cumulated amortization
- any cumulated loss of depreciation
- re-evaluated value

Re-evaluated value is a value based upon market price.

Right value represents the sum for which the active could be exchanged between acknowledging parts in the frame of a transaction with objectively determined price.

Main rules of re-evaluation:

- Re-evaluation is made at balance sheet due date based upon some evaluation performed by qualified in evaluation professionals, members of a professional body of the domain, internationally and nationally acknowledged.
- When a re-evaluation is proceeded, it must be simultaneously re-evaluated all the elements in a class for avoiding selective re-evaluation and reporting in yearly financial situations of several values which represent a cost combination (same elements reported either to accounting value or to right value).
- If, for an active in a class which has been re-evaluated, there is no active market, it will be presented in the balance sheet to cost less the cumulated adjustments of value (using basic treatment).

An active market is a market where the following conditions are fulfilled cumulative:

a) commercial elements are homogenous;
b) interested buyers and sellers can be permanently encountered;
c) prices are publicly known;

If right value of a re-evaluated tangible assets could not be determined through reference to an active market, the active value presented in the balance sheet must be its re-evaluated value at due date of most recent re-evaluation, from which we subtract the amortization and cumulated depreciation loss.

- re-evaluation must be made with sufficient regularity, thus the accounting value not to substantially differ from the one determined by using right value at balance sheet due date;
- at re-evaluation of an active, the value which results from it will replace the value with which it was registered in accountancy;
- regulation concerning amortization will apply to new value;

- a group of tangible assets is a group of actives of same nature and with similar uses found in exploitation of an entity:
a) land;
b) buildings;
c) machines and equipments;
d) ships;
e) airships;
f) vehicles;
g) furniture, plumbing, spare and assembly parts;
h) birotics.

Cumulated amortization to re-evaluation due date will be managed as such:

1. it is proportionally recalculated with the change in raw accounting value of active, thus the accounting value of active (after re-evaluation) to be equal with its re-evaluated value. This method is use if the active is re-evaluated through applying an index to amortization replaced cost;
2. it is removed from the raw value of active. Net vale is recalculated to the re-evaluated value of active.

Differences as a consequence to re-evaluation are managed as such:

A. At first re-evaluation of a tangible assets:

1. favourable difference between right value and accounting value will be directly registered in the account credit "Re-evaluation relay" (own income account);
2. unfavourable difference between right value and accounting value will be registered as an expense of the period of re-evaluation.

B. When re-evaluating tangible assets ulterior to another, two situations may appear:

1. right value is larger than net accounting value: positive difference should be managed as such:
   - as a development of relay from presented re-evaluation in the frame of element "Income and reserve", if it did **not** exist a prior decrease acknowledged as an afferent expense to the active; or
   - as an income to compensate the expense with prior acknowledged decrease to that active.
2. right value is shorter than net accounting value: decrease should be managed as such:
   - as an expense with whole value of depreciation, when for an active there is no relay from re-evaluation prior registered; or
   - as a decrease of re-evaluation relay (in the frame of own income), with the minimum of relay value and the value of decrease, and the eventual uncovered difference will be registered as an expense.

Amortization after re-evaluation

In case the re-evaluation of an active is made, the resulted value of re-evaluation will replace the cost of acquisition/production or any other value attributed before the active, regulation of amortization will apply to the active considering its value determined as a consequence to re-evaluation.

Use of re-evaluation relay

Re-evaluation relay developed by the surplus of re-evaluation is capitalized through direct transfer to relay, when this surplus represents an <u>accomplished gain</u>, using 1065 account "Relays representing the surplus developed by re-evaluation relay".

No relay part of re-evaluation could be distributed, directly or indirectly; with the exception of the re-evaluated active was turned account, situation in which the surplus of re-evaluation represents an effective accomplished gain.

Gain is considered accomplished at emphasizing the active for which the re-evaluation relay was developed. Part of the gain could be accomplished made to measure that the active is used by the entity, case in which the value of transferred relay is:
- calculated amortization on the basis of re-evaluated accounting value
- calculated amortization on the basis of initial cost of active
- relay value transferred to relay.

For re-evaluated tangible assets, the resulted differences as a consequence to re-evaluation could be encountered:

A) in the balance sheet:

- a tangible assets should be registered at re-evaluation value which represents right value at due time of re-evaluation, less any ulterior cumulated afferent amortization and ulterior cumulated loss of depreciation;
- In the class of own income difference of re-evaluation will be found either as re-evaluation relay, or as a part of exercise result as a consequence to registering sums representing the difference such as income and expenses arisen from re-evaluation also of cumulated amortization during the financial exercise.

B) in the profit and loss account:

- in the frame of exploitation expenses – adjustments of value concerning tangible assets - such as exploitation expenses concerning amortization of immobilization with the value of cumulated amortization during the financial exercise, exploitation expenses concerning adjustment for immobilization depreciation with the value of constant depreciation at the end of financial exercise and income from adjustment for immobilization depreciation with the value of re-engaging of depreciation at the end of financial exercise. As a consequence to registering sums representing differences such as income and expenses resulted from re-evaluation, these should be presented separately.

C) in the explicative notes:

In financial situation detailed information is presented concerning tangible assets in explicative notes to financial situations, aside information presented in the case of basic treatment, the following:

1. in case of effecting tangible assets re-evaluation, such a fact is presented in the explicative notes, along elements submitted to re-evaluation, method by which the presented values were calculated, as well as the affected element from the profit and loss account;
2. treatment in fiscal purpose of re-evaluation relay;
3. no matter the relay value was modified during the financial exercise, in the explicative notes must be presented the following:

a) relay value from re-evaluation at the beginning of financial exercise;
b) differences from re-evaluation transferred to re-evaluation relay during the financial exercise;
c) capitalized or transferred sums in a different manner from the re-evaluation relay during the financial exercise, presenting the nature of each transfer, respecting the present legislation;
value of re-evaluation relay at the end of financial exercise.

4. separately, for each re-evaluated tangible assets, it is presented:

a) value at historic cost of re-evaluated immobilization and the sum of value cumulated adjustments; or
b) value at due date of balance sheet of difference between re-evaluation result value and that representing the historic cost and, when necessary, cumulated value of supplementary adjustments of value.

Conclusions or "why should we choose alternative evaluation regulation?"

The controversy which often appears in accountancy world, though the fiscal one, lately is: historic cost or right value?
The accounting objectivity is of presenting an loyal image of financial position, performances and modification in financial position of entity.
The existence of the two alternative methods, presented in the present paper, could urge to accounting and fiscal abilities without developing, though, tax evasion.
By the accounting and fiscal interest, the entity could choose one of these methods, thus to serve the purpose of the entity. The difference between using one or another accounting treatment may appear in the financial position of economic entity.
The question is which of the financial position represents the loyal image: the one resulted using historic cost, or the method based upon right value?
Also the result of the exercise could be "manipulated" by the entity interest: as a consequence to re-evaluation of a tangible assets which will modify, up or down, the value of expenses from amortization which has as a result the modification, up or down, of the exercise result.
Here, also, a question arose, such as which of performances represents the loyal image: the one resulted from the use of historic cost, or the method based upon right value?
In my opinion, alternative evaluation regulations, which use the right value to the detriment of historic cost, are those to serve accounting objective.
As a conclusion, I believe conformity accounting regulation with European directives prove to be permissive enough, allowing the entity interest to prime, without crossing any regulation.

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