

ACCOUNTING TREATMENTS ON FORESTRY SPECIAL FUNDS AND SPECIFIC PROBLEMS IN ROMANIA

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Abstract: *This study, theoretically and practically, presents the accounting system for forestry special purpose funds in Romania. In addition, the main problems Romanian forestry faces nowadays are highlighted in the content, given the legislative changes expected in the near future. Accounting treatments specific to Romanian forestry regarding special funds, namely the conservation and regeneration fund, the accessibility fund, the environmental fund and the improvement fund are governed in the current law, mainly by the Forestry Code in Romania - Law 46/2008 supplemented by other specialized works used within the National Forest Directorate in Romania. Among the specific forestry regulations, special purpose funds are an area of interest in the current economic crisis being presented under several aspects: establishing the Fund, its utility and calculation method, its recording into accounting, or its specific tax implications. The main objective of this paper is to provide both a framework for analysis and presentation of the problems faced by forestry activity in Romania, and the accounting treatments specific to forestry activities, by illustrating the main entries made through financial and accounting documents. Given that we fully realize the environment's importance in our lives, we understand the very close relationship between the forestry business' enactment, its financing and its supervision. Special funds are the basis for financing forestry projects. Their study covers a gap in the specialized literature, providing specialists, practitioners and other stakeholders a framework. In the current economic and political context, the forestry problems, environmental issues in general are perceived to be more stringent. The solutions identified as a firm response to the existing problems are therefore of major importance, of which, in this study, we have identified and proposed several solutions. Practical examples have as grounds real data extracted from invoices, and the accounting items correspond to the National Forest Directorate.*

Keywords: *accounting, environmental issues, forestry, forestry funds, special purpose funds.*

JEL classification: *M41, G28, E62.*

1. Introduction

The study's main objective is to identify and present many current concerns regarding forestry activities in Romania, and to present the accounting treatments specific to special funds in forestry with practical examples.

The paper presents the regulation and operation of funds specific to forestry under the Romanian accounting legislation and the current issues of the forest system. However, in terms of funds and from an accounting point of view, the adjustment of Romsilva National Forest Directorate in Romania to the rules of the Minister of Public

Finance Order no. 3055/2009 with subsequent amendments and additions in force on that date is described in detail. We believe that special funds intended for financing various forestry activities in Romania are not investigated sufficiently in the specialized literature. Underfunding is a common problem in conditions of economic crisis, like the one we are going through now, and without a clearly identified horizon, we can as a first matter study and review *the existing funding sources, in our case the special forestry funds*.

Therefore, we consider appropriate to approach the subject, as the forest sector issues are current in 2013, and the examples in this study may be useful to specialists.

2. Research methodology

The method used in our research is mainly based on descriptive analysis and on the dynamic comparison method, in order to highlight the specific problems the forestry sector faces and the accounting treatments specific to forestry in Romania.

The data used in this paper comes mainly from legal sources regulating forestry activities in Romania (Forestry Code), in conjunction with OMPF 3055/2009, which currently regulates accounting in Romania, completed by economy and accounting specialized works, applied in forestry. However, for the examples in Chapter 4, accounting data from the central forestry unit in the country was used, namely the National Forest Directorate (NFD), thus emphasizing specifically the processing and recording of financial-accounting information in forestry.

3. Aspects of the current problems of the Romanian forestry sector

In Romanian forestry, there currently are a number of factors negatively influencing standing crops, of which we can mention:

1. Excessive exploitation of standing crops, increasing in the last 6 years;
2. Low concern for providing an adequate legal framework for the Romanian forest sector issues;
3. Insufficient concern for artificial regeneration of forests, limiting logging and creating forest belts;
4. Reviewing and adapting the funding sources to the current needs for the forestry sector;

According to the representative of Romsilva National Forest Directorate, Chief Engineer Dr. Adam Crăciunescu, 2012 was a good year for forestry, concluded in terms of profitability under the specific indicators. However, according to the estimates, 2013 will be a year of reforms in the Romanian forestry. The current concern for reforming administration appears in the context of the area administered by the overhead is decreasing. In the future, about 40,000 ha will be returned to former owners, which will certainly lead to a considerable decrease of turnover. The stated objective for 2013 is that of "increasing management efficiency, improving technical works and providing optimal conditions for the young trees to carry out their functions" (Adam Crăciunescu, 2012, page 3). The same author points out other flaws in the Romanian forestry, such as organizing a forest guard, the forest development activities or implementation of the "due diligence" European regulation on placing the wood on the market. The resources of Romsilva NFD, at this time, as many other branches of the national economy are currently underfunded, Chief Engineer Dr. Adam Crăciunescu stating that *"investment activity is a priority [...] own resources are far from sufficient, as well as the public ones. This is why the own*

development resource is intended primarily to provide modern productive equipment for all our activities. We need to continually improve the level of mechanization of forest works, starting with those of forest nursery culture, land and soil preparation, planting new trees and caring for the young forest, wood exploitation, transport and manufacture” (Adam Crăciunescu, 2012, page 4).

Another forestry problem is the national system’s need for forest belts. Academician Victor Giurgiu emphasizes the issue of financing forestry, calling it “feeble and uncertain funding”, which, although it is provided by the Forestry Code law through special funds, is “formal” (Victor Giurgiu, 2012, page 14).

The importance of forests for the Romanian culture and civilization is known and recognized on the local realm. Thus, within the popular Romanian consciousness, there existed the expression “the forest, the Romanian’s brother”, expressed by the great national poet Mihai Eminescu in the poem *Doina*. Unfortunately, the Romanian forest is currently suffering because of legislation inability to stop the phenomena such as illegal logging and other loopholes. On medium and long term, deforestation “represents disasters caused by indifference and recklessness with serious effects over time and space on the natural environment, society and economy. Deforestation’s consequences are severe: landslides, soil desertification, climate destabilization (global warming, green-house effect), extinction of many species, showing serious and severe conditions (storms, hurricanes), etc.” (Dacina Crina Petrescu, 2009, page 180).

According to the Statistical Yearbook of Romania (2012, pages 446-447), Romania’s total forest in 2011 is of 6.519 million hectares. A first negative statistical particular sign, designed to raise questions is the decline of forests’ artificial regenerations, from 15,533 hectares in 2006 to 11,499 hectares in 2011, 25.97% less. As a negative effect, corroborated to the previous observations, the surface covered with felling in our country in 2011 amounts to a total of 107,690 hectares, compared to 86,167 hectares in 2006, increasing by 24.97% over 2006. In addition, the total volume of wood exploited by forestry traders in 2011 is 16,204,000 cubic meters, compared to 11.739 million cubic meters in 2006, 38% more.

As forests are an important long-term factor in balancing the Romanian natural ecosystem, noting the significant increase in timber harvesting between 2006 and 2011 (38%), the decrease of artificial regenerations by 26%, and the increase of the area covered with felling by 25 %, we can conclude that the ecosystem in Romania will seriously suffer over time. Viable solutions to existing problems can be found only if the technical, financing and legal sources are identified in order to protect this great national wealth of Romania, which is the forest.

4. Accounting treatments on forest funds

In this section of the paper, we shall theoretically and practically present the funds specific to forestry. In forestry, by law, there are four types of special funds: *the conservation and regeneration fund, the accessibility fund, the environmental and the improvement fund.*

4.1. The conservation and regeneration fund

Under Article 33 of the Forestry Code (Law 46/2008, art. 33, paragraph 1), the forests conservation and regeneration fund is established mandatory by the forest fund administrator of public property or by the forest owners. This fund, being part of the fiscal reserve system, interest bearing, tax-free and tax deductible is at the

administrator's disposal and in his account or in the forestry provider's charge. To elucidate the legal operation framework, we shall recall the formation sources of the fund, its utility and the specific accounting records with a practical example.

The formation sources of the fund, according to the Manual of accounting policies and application procedures consistent with OMPF 3055/2009 (2012) are:

1. "revenue from cashing the value of lands permanently removed from the standing crop;
2. revenue from cashing the value of growth losses caused by the trees logging before the exploitability age established by forest planning;
3. revenue from compensation for damages caused to the forest;
4. revenue from the payments determined by the favourable effects stemming from the protective functions of forests;
5. revenue from the sale of standing timber from the primary and accidental I products (15% - 25%)".

The above statement can be filled with art. 33, paragraph (2) of the Forestry Code, according to which, the conservation and regeneration fund of forests is formed also of "15-25% from the value of timber authorized for logging. This is derived from primary and accidental I products, calculated at the average price of a meter cube of standing timber/foot. For the State owned forests, the Romsilva National Forest Directorate establishes the annual percentage rate. For the other forms of forest ownership, the annual percentage rate shall be established, where appropriate, by the forest districts referred to in Article 10, paragraph (2). This amount is transferred by buyers/holders of operating licenses, directly in the forest administrator's account or in the one of the forest service provider" (*Forestry Code*, art. 33, paragraph 2, letter F of Law 46/2008).

Also, article 123 of the Forestry Code provides that "the average price of a cubic meter of standing timber/foot is determined annually by order of the head of the central public authority responsible for forestry" (Law no. 46/2008 - Forestry Code).

The utility of the forests conservation and regeneration fund is chiefly aimed at the forest conservation and regeneration in many ways that can be found in the forestry activity, among which we mention (*Manualul de politici contabile si proceduri de aplicare a Planului de conturi 3055/2009*, 2012; page 139, *Forestry Code - Law 48/2008, article 33, paragraph 3*):

- "regeneration of areas covered with felling;
- forestation of bare lands recorded in forest management or of those taken for forestation;
- reinstalling forest on lands temporarily occupied from the standing crop;
- carrying out relief and care works of natural regeneration and of the existing young crops;
- performing works in the forest genetic resources included in the National Catalogue of forest reproductive materials;
- covering the costs of restoring forests damaged by natural disasters;
- carrying out care works for young trees, as well as clearing and cleaning works;
- land purchasing, according to the methodology for determining the equivalent value of lands and the calculation of monetary obligations".

The calculation method of the conservation and regeneration fund is provided in the same Forestry Code Law. According to the formula below (article 33 paragraph (2) letter f of Law 46/2008, for a 25%), a percentage between 15% and 25% may be applied:

$$\text{Conservation fund} = \frac{Tv * Ap * 25}{125}$$

Where Tv = Timber value, Ap = Average price

After determining the values of the conservation and regeneration fund, we proceed to bookkeeping it from formation to consumption. The main accounting records to that effect, are presented in Table 1.

Table 1: Bookkeeping the conservation and regeneration fund

Type	Operation	Correspondent accounts according to the NFD Chart of Accounts, compliant with the OMPF 3055/2009
Formation of the conservation fund	Counter value of 15 - 25% of the meters of primary and accidental I products; operating permit (NFD/others)	65845=47211 (4622=47212)
	Counter value of land permanently removed from the standing crop, public property	65841=47211
	Increase losses	65842=47211
	50% of the rent for temporary occupation of land	65842=47211
	compensation for forest damage	65843=47211
	Counter value of conservation fund for the wood corresponding to the private property (according to contract)	65846/4622= 47212
Fund consumption	forestation and regeneration	47211=74161
	Special protection functions	47211=74162
	expenditure on forest disasters	47211=74163
	land purchases, care works, recesses, cleaning	47211=74164 47211=74166
	forest management, private property	47212=4622

Source: *Manualul de politici contabile si proceduri de aplicare a Planului de conturi 3055/2009*, 2012, page 140.

Example 1: Based on the invoice 1911/28.11.2012, the retention of the conservation and restoration fund is determined and recorded. It contains the following information:

- VAT reverse charge,
- Standing timber/foot P.1125 MICOAIA, GROSS VOLUME – 262 CM, BARK – 21 CM, NET VOLUME – 241 CM, 179.79 lei/cm, total amount 43,329.39 lei;
- Standing timber/foot P.1161 PR BATRANEI, GROSS VOLUME – 104 CM, BARK – 10 CM, NET VOLUME – 94 CM, 183,71 lei/cm, total 17268.74 lei;
- Standing timber P.1099 RUNCULEU, GROSS VOLUME – 38 CM, BARK – 2 CM, NET VOLUME – 36 CM, price 140,80 lei/cm, total 5068,80 lei;

The conservation and restoration fund is calculated in percentage to the collected amount of the invoice representing the primary + accidental I products:
 Invoice no. 1911/28.11.2012 recording 404 cm wood on key accounts, results from the following calculation:

$$Cf = \frac{Tv * Ap * 25}{125} = Cf = \frac{404mc * 85lei * 25}{125} = 6.868 lei$$

Where,

- Cf= Conservation fund
- Tv= Timber value
- Ap= Average price (Set by law at 85 lei)

Accounting records:

Formation of the conservation and restoration fund:

65845

=

47211
 "15%-25% of the proceeds realized
 from the sales of meters"

6,868 lei
 "Income from the forest
 regeneration fund managed by the
 NFD"

Fund transfer to the National Forest Directorate (monthly):

4812

=

5121

6,868 lei
 "Settlements from other operations"

"Bank accounts"

47211

=

4812

6,868 lei

"Income from the forest regeneration
 fund managed by the NFD"

"Settlements from other operations"

4.2. The accessibility fund

The accessibility fund is the second of the four special funds operated in forestry. This fund is constituted in accordance with Law 56/2010 regarding the access to national standing crop. It is provided in article 4, paragraph 1, and its declared destination is the support of forest road construction and interventions to existing roads for their maintenance. The main works intended to be financed from the Fund are reconstruction, consolidation, rehabilitation, alteration and extension works (Law 56/2010, article 1).

The accessibility fund consists of the following resource (Law 56/2010, article 5):

- "(a) up to 10% of the timber sold and collected as provided by law, from the primary and accidental I products (percentage established by order of the head of the central public authority responsible for forestry)
- (b) the amount due to the administrator of the public property forestry fund, determined according to article 42 paragraph (1) letter b) of Law no. 46/2008 on Forestry Code, as amended and supplemented.

The forest accessibility fund is an interest-bearing fund.

The fund's remaining available amounts at the end of the calendar year shall be carried forward to the next year with the same destination".

Given the description of the fund, its utility is shown in article 6 (Law 56/2010, article 6):

- "designing the works of forest road construction;
- designing of intervention investments for existent forest roads;
- executing the construction works of new forest roads;
- executing the intervention-investment works for existent forest roads";

Table 2: Bookkeeping the accessibility fund

Operation	Correspondent accounts according to the NFD Chart of Accounts, compliant with the OMPF 3055/2009
Up to 10% of the meters of sold and collected primary and accidental I products	58711 = 475851
50% of the rent of temporary forest	65872 = 475851 475851 = 4812
For other properties	4622 = 475852

Source: *Manualul de politici contabile si proceduri de aplicare a Planului de conturi 3055/2009*, 2012, page 141.

Example 2: Based on the invoice 3546/22.08.2012, the retention of the accessibility fund is determined and recorded. The calculation of the accessibility fund is made by applying 10% to the collected invoice amount representing "primary" and "accidental I" products.

It contains the following information:

- VAT reverse charge;

- The wood derived from primary and accidental I products, 37 cm, 148 lei/cm, total 5,476 lei;
- The wood derived from secondary and accidental II products, 26 cm, 112 lei/cm, total 2,912 lei;

$$Af = \frac{Pv * 10}{110} = \frac{5476 * 10}{110} = 498 \text{ lei}$$

Where,
Af= Accessibility fund
Pv= Production value

Accounting records:

	658711		
=			475851
			498 lei
	<i>"Expenditure on extra-budgetary fund - 10%"</i>	<i>"Income from the accessibility fund"</i>	

4.3. The environmental fund

The environmental fund is one of the most important financial tools provided to support the environment. Thus, the environmental fund is provided by the GEO no. 15/2010, contained in Law 167/14.07.2010, being replaced at that time by the GEO 196/2005 on environmental fund.

Under current legislation, the environmental fund has the following *sources of formation* (Law no. 167/14.07.2010, article 7):

- *"a 2% contribution of the proceeds from the sale of wood and/or wood materials obtained by the administrator or by the owner of the forest, except firewood, ornamental trees and shrubs, Christmas trees, wicker and seedlings;*
- *a 3% contribution of the amount charged annually for managing hunting, paid by hunting fund managers [...]*
- *the law also provides for a 3% contribution of the revenues from the sale of ferrous and nonferrous metal scrap, including goods destined for dismantling, obtained by the scrap generator, namely the owner of the dismantling goods, natural or legal person. The amounts are paid as they are earned by the traders engaged in collecting and/or recovering waste, which are bound to transfer them to the Environmental Fund".*

Table 3: Bookkeeping the environmental fund

Operation	Correspondent accounts according to the NFD Chart of Accounts, compliant with the OMPF 3055/2009
Fund formation of 2% timber	658921= 44781 NFD (4622 = 44782 others)
Fund formation of 3% hunting fund charge	65892=4478
Fund formation of the invoice of waste iron arising from cassation:	4111= 708 (reverse charge Art.160 Fiscal Code) 5121 = 4111 (97%) 4728 = 4111 (3%) 6358 = 4728

Source: Adapted from *Manualul de politici contabile si proceduri de aplicare a Planului de conturi 3055/2009*, 2012, page 141.

4.4. The improvement fund

The improvement fund is the last of the four special funds. It is regulated by the Order 2353/2012 of the Minister of Environment and Forests, published in the Official Gazette of Romania no. 422/25.06.2012 for approval of the "Methodological norms for the formation and the use of the land improvement fund for forestry purposes". On this Order's entry into force, the old law, the Order of the Ministry of Agriculture, Forests, Waters and Environment no. 499/2003 was repealed.

By law, the sources of the fund are (Order of the Ministry of Environment and Forests 2353/2012, art. 1):

- "a) the fee for lands' permanent removal from the standing crop referred to in art. 41 paragraph (1). a) of Law no. 46/2008 - Forestry Code, as amended and supplemented;
- b) interest charged under the law, for the cash availability, and for the deposits made up of revenues earned from carrying out activities referred to in letter a)".

However, legislation mentions the fund's destination. Thus, this fund ensures (Order of the Ministry of Environment and Forests 2353/2012, art. 4):

- "a) funding the research, design and execution of the works stipulated in the development, improvement and enhancement projects through forestation of degraded lands established in improvement areas;
- b) the financing of technical and economic studies preparation and documentation for achieving protective forest belts;
- c) the funding of land forestation for categories achievement of The Protective Forest Belts National System;
- d) compensation for the income loss corresponding to the actual area occupied by forest belts, stipulated in art.101 paragraph (1) of Law no. 46/2008, with subsequent amendments".

From an accounting perspective, the improvement fund is recorded as follows:

Table 4: Bookkeeping the improvement fund

Operation	Correspondent accounts according to the NFD Chart of Accounts, compliant with the OMPF 3055/2009	Simultaneous bookkeeping
Counter-value of forestations on degraded land from the improvement fund	23113 = 404 TVA	/
Collection of the improvement fund from the ministry	5121 = 4722	2311=404
Works payment from the improvement fund	404=5121	404=4812 paid by the NFD
Performance guarantee	404=167	/
Consumption from the improvement fund	4722=23113	/
Budgetary allocation for ecological restoration	47511=23112	/
Extra-bookkeeping of improved lands, on the date of the final acceptance, including VAT, from own sources or from the budget	4722=23113	Final receipt on achieving the state of sturdy wood, about 10 years

Source: Adapted from *Manualul de politici contabile si proceduri de aplicare a Planului de conturi 3055/2009*, 2012, page 142.

5. Conclusions

The Romanian forestry special funds, governed by relevant government structures and coordinated by Romsilva National Forest Directorate, prove to be of interest to economists, as *they represent the key to a balance* between man and nature in social terms and between the forestry industry and the health ecosystem through economy. Seen as funding sources for urgent and current forestry projects, the four special funds can really achieve their purpose *when adapting the funds based on the forestry needs* in order to answer the Romanian social needs.

We want to emphasize the difference between a general matter of economics and a matter of environment. If a general matter of economics can have immediate effects that are obvious, discernible, verifiable, and in some cases an effective post-effect response, the matters of environment generally occur on medium or long periods, and the lack of concern for their effective and sustainable resolution can have disastrous and irreversible consequences for man.

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