

ASSESSMENT OF TANGIBLE ASSETS ACCOUNTING IN THE PUBLIC SECTOR OF THE REPUBLIC OF MOLDOVA IN ACCORDANCE WITH INTERNATIONAL STANDARDS

¹**Railean Tatiana**, PhD Student

e-mail: tanea.r2018@mail.ru

²**Grigoroii Lilia**, PhD

e-mail: lilia.grigoroii@ase.md

^{1,2}Academy of Economic Studies of Moldova

61, Bănulescu-Bodoni Street, 2005 Chişinău, Republic of Moldova

Web page: www.ase.md

Abstract: *Currently, the tangible assets accounting is one of the most actual issues for public sector entities in both in accordance with Moldovan and International Public Sector Accounting Standards (IPSAS). The research methodology is based on the analysis of national accounting treatment and IPSAS 17 PROPERTY, PLANT, AND EQUIPMENT to select convergences and divergences related to tangible assets accounting. In this way, are discussed the new accounting rules (like depreciation, impairment and revaluation model) of IPSAS 17 that should be selected and implemented upon approval of the National Public Sector Accounting Standards in Republic of Moldova. Also, in the paper are presented some proposals both for the national accounting and for the international standards.*

Key words: *tangible assets, accounting, international standards, public sector*

JEL CLASSIFICATION: M41

1. INTRODUCTION

Practically every budgetary institution activate with tangible assets. Consequently, of applying accounting treatments for it, depend the reality of information included in financial statements of the institution. Providing a true picture of the total tangible assets, it is require adaptation or alignment to international standards. Harmonizing public sector accounting at the international level is often realized today by applying the International Public Sector Accounting Standards (IPSAS) (Brusca&Martínez, 2016).

Therefore, the Republic of Moldova intends to reform the budgetary system accounting by aligning to International Public Sector Accounting Standards. Respectively, is approved the Order of the Minister of Finance No.159 of December 27, 2016 regarding the Concept and the Action Plan for the elaboration of the National Accounting Standards for the Public Sector. According to the nominated normative act, 30 national standards will be developed and implemented. It follows to be elaborated the National Accounting Standards for the Public Sector "Tangible assets", which will contain new accounting treatment, unknown in the national practice.

At present, the main normative framework governing the accounting of tangible assets in the public sector is the Order of the Minister of Finance No.216 of December 28, 2015 regarding the approval of the Chart of accounts in the budgetary system and the Methodological Norms on Accounting and Financial Reporting in the budgetary system.

To see witch level national accounting treatment for tangible assets correspond to international accounting treatment, we will analyze and highlight the convergences and divergences regarding these.

2. MATERIALS AND METHODS

To achieve the proposed goal, are investigated two accounting referentials - the IPSAS 17 "Property, Plant and Equipment", that are the basis for reforming the Republic of Moldova public sector accounting and the Order of the Minister of Finance No.216/2015 regarding the approval of the Chart of accounts in the budgetary system and the Methodological Norms on Accounting and Financial Reporting in the budgetary system. In the investigation process were used such methods as analysis and synthesis, comparison, analogy method, systems approach, logical approach.

3. RESULTS AND DISCUSSIONS

Assets should be recognized as tangible assets if they meet the definition and recognition criteria. For the convenience of carrying out a comparative analysis, below are shown the definitions and recognition of tangible assets in accordance with Moldovan and international accounting requirements (Table 1, Table2).

Table 1. Comparative aspects regarding the definition of tangible assets

National Accounting Regulations	IPSAS 17 "Property, Plant and Equipment"
Tangible assets:	
- are assets with a useful life of more than 1 year, - held for use in the production or supply of goods or services for administrative or leasing purposes to third parties.	(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period

Source: The author's own processing

As we see, the definition of tangible asset in national accounting regulations is similar to definition in IPSAS 17. The tangible assets are held by entity more than one year and are used in the production or supplying of goods or services, or for administrative purposes.

Table 2. Comparative aspects regarding the recognition of tangible assets

National Accounting Regulations	IPSAS 17 "Property, Plant and Equipment"
- it is probable that the budget authority / institution will obtain future economic benefits from the use of the asset; - the cost or fair value of the asset can be measured reliably.	(a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) the cost or fair value of the item can be measured reliably.

Source: The author's own processing

Both the national accounting regulations and the IPSAS 17 stipulate similar recognition provisions, only that IPSAS, additional take in account the following requirements:

- the entity bears risks and rewards when using assets, and
- the entity controls the assets.

An item of tangible assets at initial recognition should be measured at its cost. According to international accounting regulations the cost is formed from some elements (Table 3).

Table 3. Comparative aspects regarding the elements of cost at initial recognition of tangible assets

National Accounting Regulations	IPSAS 17 "Property, Plant and Equipment"
Tangible assets are valued at: <ul style="list-style-type: none"> • the purchase costs, for those purchased; • the costs of production, for those built or produced by the institution; • fair value, for those acquired free of charge. Purchase costs include: purchase price, customs duties and import duties, transport costs, assembly and installation costs and other costs related to their preparation for use according to destination. Trade discounts, rebates and other similar items are not included in determining purchase costs. The costs of production include: cost of material consumption, labor remuneration expenses, social security contributions, health insurance premiums, etc .;	The cost tangible assets comprises: <ul style="list-style-type: none"> (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period

Source: The author's own processing

A comparative analysis of the cost elements revealed the following convergences and divergences. In general, the costs included in the value of tangible asset in the event of its initial recognition both in national accounting regulations and in accordance with international standards are the same. So, in accordance with the order of the Ministry of Finance of the Republic of Moldova No. 216/2015, as well as in accordance with IPSAS 17 "Property, Plant and Equipment", elements of cost there are purchase prices, all direct costs associated with the purchases or production of an item of tangible assets on their own. In both cases, direct costs include consumed resources (material, labor and others), directly related to the purchases or production of a tangible asset items. However, the international standard requires the inclusion in the cost of an asset when it is recognized, costs that are not contained in the order of the Ministry of Finance of the Republic of Moldova No.216/2015. So, in accordance with IPSAS 17 "Property, Plant and Equipment", the initial cost of tangible assets includes the costs of dismantling and liquidating an item of tangible assets and restoring of the site on which it is located, in respect of which the institution undertakes an obligation either the moment of acquiring the object, or already during its operation.

As shown in the IPSAS 17, one or more items of tangible assets may be acquired in exchange for a non-monetary asset or assets. The cost of such tangible asset is measured at fair value unless:

- the exchange operation is not of a commercial nature;
- the fair value of neither the asset received nor the asset given up cannot be estimated

If an item of tangible asset is acquired as a result of an exchange transaction, and it is not possible to estimate its fair value, then such item of tangible asset is recognized at the carrying amount of the transferred asset.

Regarding to national accounting treatment, namely the order of the Ministry of Finance of the Republic of Moldova No. 216/2015, does not provide the transactions for the acquisition of tangible assets by a budgetary institution as a result of exchange for a non-monetary assets.

The main operations, as a result of which the budgetary institutions in Republic of Moldova reflect the object of the tangible assets in accounting, are as follows:

- acquisition (purchase) of tangible assets;
- receipt of tangible assets free of charge;
- procurement of tangible assets through promotional actions;
- production of tangible assets in an economic way (construction);

- identification of fixed assets as surplus in the inventory;
- receipt of tangible assets as compensation for damage by the guilty person.

After the tangible asset has been accepted for accounting in accordance with all the recognition criteria and valuation rules, the public institution must choose the accounting model for this item, and reflect its choice in the accounting policy. Therefore, the public institution may keep the accounting records as follows:

- the cost model;
- the revaluation model.

The IPSAS 17 stipulate provision that allow budgetary institution to adopt one of two treatments for setting the value of the tangible assets. The cost model, according to international regulations, consists in accounting of tangible assets at historical value, less any accumulated depreciation and any accumulated impairment losses. The revaluation model, consist in accounting of tangible assets at fair value, less subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The IPSAS 17 contains some stipulations related to establishing the frequency of revaluation, identification the indicators that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, recording the results of the tangible assets revaluation.

According to the national accounting treatment, budgetary institutions use cost model for tangible assets accounting. Comparative with international treatment, it consists from historical cost, less any accumulated depreciation, without less accumulated impairment losses, whereas the rules about impairment of tangible assets are not provided in the national regulations.

Revaluated model does not applied by the budgetary institutions, whereas national framework does not determine rules related to it. However, tangible assets revaluation rules are provided, not for regular revaluation, but for revaluation in specific cases, as follows:

- sale of tangible assets;
- the transfer of the right to use tangible assets;
- transmission as a contribution in the capital of related and unrelated parties;
- other situations provided by the normative framework.

The difference between the value obtained from the revaluation and that recorded in the accounting determine increase or decrease in value of the tangible assets.

The national accounting regulations and the IPSAS 17 "Property, Plant and Equipment" stipulate different methods for treating results of the tangible assets revaluation (Table 4).

Table 4. Comparison of treatments for the results of tangible assets revaluation

The Accounting Net Value of Tangible Fixed Assets	National Accounting Regulations	IPSAS 17 "Property, Plant and Equipment"
Increase	The increase debits the asset account and the credit the income account.	The increase credits the account of 'revaluation surplus' to the extent to which it compensates a revaluation decrease of the same assets, previously acknowledged as expenditure
Decrease	The decrease debits expense account and credit one of the valued asset.	The decrease will be subtracted from any revaluation surplus to the extent of which it does not exceed that surplus even as expenditure, but only for the difference that exceeds the revaluation surplus

Source: The author's own processing

The accounting treatment of results from the tangible assets revaluation in the national regulations is not similar to the treatment of the international standards, whereas the Chart of account not has account for "reserve of reevaluation", therefore recording the differences in expense and income accounts.

Depreciation, in accordance with IPSAS 17 "Property, plant and equipment" and the order of the Ministry of Finance of the Republic of Moldova No. 216/2015 is the systematic allocation of the depreciable cost of an asset over its useful life.

International accounting practice, in relation to the accounting of tangible assets and the formation of an indicator for the purpose of its reflection in the reporting, introduced such concepts unfamiliar to a Moldovan accountant as "depreciable amount" and "residual value".

Depreciable amount is the cost of an asset less its residual value. The depreciable amount can be equal to the initial cost only if the residual value is zero. Below is the formula for finding the depreciable amount.

$$\text{Depreciable amount} = \text{Initial cost} - \text{Residual value} \quad (1)$$

The residual value of an asset is the estimated amount that an institution would currently receive from the disposal of an asset, after deducting the expected costs of disposal, as if the asset had already reached its expected age and condition at the end of its useful life. The residual value is an estimated value and therefore presents some difficulty in determining it.

As for the methods for calculating depreciation of tangible assets in accordance with the requirements of national framework, there is one way of calculating depreciation - straight-line method.

The straight-line depreciation method assumes the accrual of a constant amount of depreciation over the entire useful life of the asset, if this does not change the residual value of the asset.

According to the IPSAS 17, in addition to the straight-line method (Table 5), two more methods are provided:

- the diminishing balance method - results in a decreasing charge over the useful life,
- the units of production method - results in a charge based on the expected use or output.

Table 5. Comparative analysis of methods for calculating depreciation of tangible assets

Indicadores	National Accounting Regulations	IPSAS 17 "Property, Plant and Equipment"
Methods of calculating depreciation	straight-line depreciation method	straight-line depreciation method, the diminishing balance method, the units of production method

Source: The author's own processing

The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset and reviews them every year.

According to IPSAS 17, the tangible assets are said to be impaired when its carrying amount is greater than its recoverable amount or fair value.

Impairment if tangible assets describe a permanent reduction in their value. This concept leads to a presentation of tangible assets in financial statements at a value close to the market value.

The rules for determining and recording the process of impairment of tangible assets are described in IPSAS 21 "Impairment of Non-Cash-Generating Assets" and IPSAS 26 "Impairment of Cash-Generating Assets".

The national accounting regulations do not provide accounting treatment of impairment of tangible assets. It is expedient to mention, that concept like impairment does not exist in national accounting definitions.

The next analyzed compartment is the derecognition of tangible assets. The derecognition means the disposal of assets in case of:

- sale of tangible assets;
- donation of tangible assets;
- identification of fixed assets as shortcoming in the inventory;
- losses from natural disasters.

According to that, the IPSAS, additional, requires to derecognize the carrying amount of the component of tangible asset that was replaced regardless of whether the replaced component had been depreciated separately. It happens when the cost of such replacement is incurred and the recognition criteria are met. National accounting framework does not provide for such derecognition, which from a theoretical point of view is easy, while in practice it is complicated and unknown.

4. CONCLUSIONS

After establishing convergences and divergences of tangible assets accounting according to national and international framework, we may conclude that differences are enough and it will not be so simple to align to new international accounting requirements. It is new, but advisable to require the recognition in the initial cost of tangible assets of the costs of their dismantling and decommissioning, as well as the restoration of the site on which they are located. Also, the IPSAS requires to recognize (if it respect recognition criteria) and depreciate separately each part of a tangible asset, when the cost of it is significant in relation to total cost of the tangible asset. Although such requirement is not provided in national framework, consider that it should be adopt for some tangible assets. Speaking about impairment of tangible assets, we conclude that the process of its determination is variable and complicated. Furthermore, at this process is compulsory to determine fair value. IPSAS 17 provides some hypotheses for determining fair value, only that it does not contain a clear guidance, which stops the application of these accounting treatments.

Based on this, we consider it appropriate to create and introduce into the IPSAS a special standard that establishes the regulations for calculating fair value. The requirements of IFRS 13 "Fair Value Measurement" can be used as a basis for the development of the national and international standards. Indeed, this type of assessment should be determined according to uniform rules by organizations of both the state (public) and privet sectors.

Pay attention to the fact that the Chart of accounts of budgetary system need to include account for recording of difference of revaluated value.

With regarding on the use of depreciation methods, basing on practice and example of Romania, we suppose that straight-line method is more optimum for budgetary system. The values calculated on diminishing balance and the units of production methods are considered tax depreciation, as they reflect the influence of taxation on accounting (Vasilcoiu R. I. 2013).

With the introduction of IPSAS 17 or the adoption of the national public sector standard for accounting for tangible assets, it is necessary to simultaneously introduce at least 10 more of the standards as follows:

- IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors
- IPSAS 5: Borrowing Costs
- IPSAS 12: Inventories
- IPSAS 13: Leases
- IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets

- IPSAS 9: Revenue from Exchange Transactions
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of Non-Cash-Generating Assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 32: Service Concession Arrangements

Summarizing what has been said, it should be noted that not all accountants may be ready to use these opportunities, since the regulations of the IPSAS, in many cases requires professional judgment, which is still problematic for many Moldovan accountants. In addition, the study of the rules specified in IPSAS 17 allows us to assert that these rules give rise to some debatable issues that require clarification. This will raise the issue of the availability of qualified public sector accounting professionals.

The world experience shows that high-quality information that is useful for users of reporting is achieved by using international standards as the basis for creating national principles of accounting and reporting of public institutions. Also, the use of IPSAS in the public sector ensures compliance with world accounting and reporting rules, improves functionality, and forms accounting tasks.

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