

ACCOUNTING CONSIDERATIONS ON THE EVALUATION AND REEVALUATION OF NON-CURRENT ASSETS

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Abstract. A non-current asset, like any other asset of an economic entity, must be valued to be recorded in the current accounting and, respectively, for recognition in the annual financial statements. Thus, the valuation determines the values at which the patrimonial items will be recognized in the annual financial statements. For evaluation purposes, will be taken in account first of all, the general evaluation rules, the main moments when this evaluation process takes place, this assuming the choice of a particular assessment base. All these considerations have been the main objective of the topic addressed, taking into account also, as in this paper to present the main aspects regarding the initial evaluation and the subsequent evaluation of the non-current assets, both theoretically and applicative, with the compliance of the accounting provisions given by OMFP 1802/2014.

Key words: non/current assets, evaluation, reevaluation, depreciation
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Introduction

Carrying out the activity of an economic entity requires the existence of a technical-material basis in which the fixed assets are patrimonial assets, have an important economic role and hold a significant share, these assets being intended to serve the economic entity for a long period in its activity. Economic entities use assets to produce goods, perform works or provide services capable of satisfying the wishes or needs of customers who are willing to pay to obtain them, thus contributing to the cash flow of the entity.

An important aspect of fixed assets is the recognition and measurement of fixed assets, the professional judgment used in their recognition, the bases used, the initial valuation, the subsequent expenses incurred with the fixed assets and the accounting treatment for depreciation.

Conceptual delimitation of fixed assets

Achieving future economic benefits is the goal of any economic entity, the success in achieving this goal is largely determined by the investment decisions that will be made, based on past experience and often using resources created in the recent past. An investment has as its object, from the accounting point of view, either the production or the purchase of an immobilized assets, whether is it corporal, intangible or financial.

Under the asset name, the two assets categories presented in Figure no. 1.

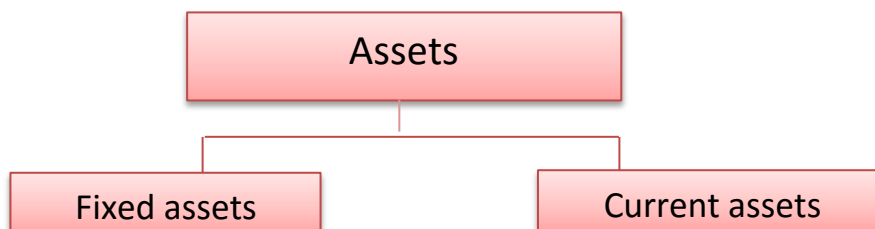


Figure no. 1. Categories of assets

Under the current accounting regulations (OMFP 1802/2014), an asset must comply with the requirements presented in Figure no. 2.

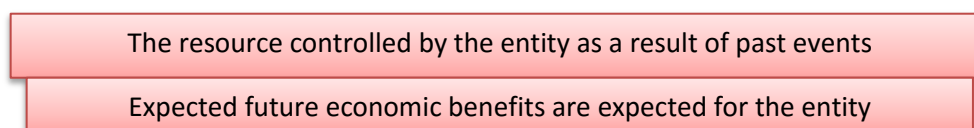


Figure no. 2. Requirements for qualifying assets

In figure no. 3 shows the main features of fixed assets.

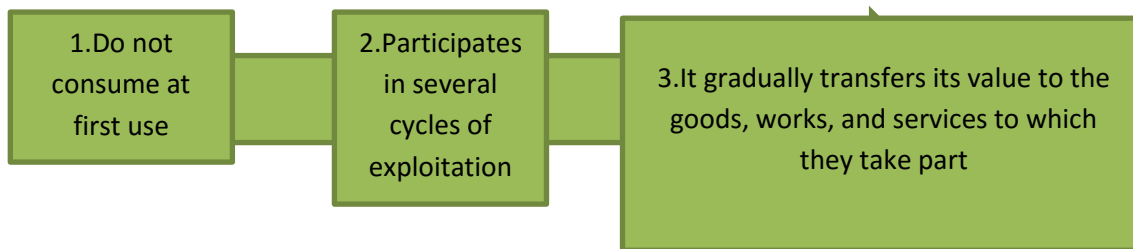


Figure no. 3. Characteristics of fixed assets

Evaluation and revaluation of fixed assets

To be recorded in the current accounting and recognized in the annual financial statements, an asset, as any other asset of an entity, must be valued. Evaluation is the process by which the values at which the financial statements will be recognized in the Balance Sheet, the Profit and Loss Account, and the Explanatory Notes, assuming the choice of a particular valuation basis, is determined.

The evaluation is made taking into account the general evaluation rules, but also the main moments when this occurs.

In order to be recognized in the accounting and presented in the balance sheet, the fixed assets are valued in accordance with the valuation principle at acquisition cost or production cost.

The assessment of fixed assets is intended: initial assessment, subsequent assessment

The initial assessment refers to the assessment at the entry into the economic entity and is based on the cost, calculated on the basis of the supporting documents, cost that acquires the status of entry value.

Subsequent evaluation includes: subsequent expenditures, inventory valuation with balance sheet, revaluation, and entity exit valuation.

2.1 Rating on entry of fixed assets in the entity

At the entry or accounting value, which varies according to the way of purchasing, namely: as a result of the acquisition process, from own production, as a contribution to capital, received as donations.

This type of valuation is based on cost and is calculated on the basis of supporting documents, the cost taking the status of entry value (Figure 4)

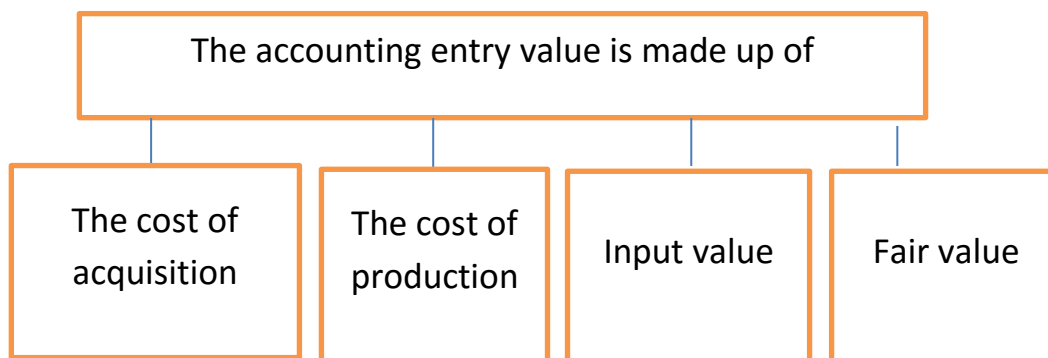


Figure no. 4. Presentation of accounting entry values

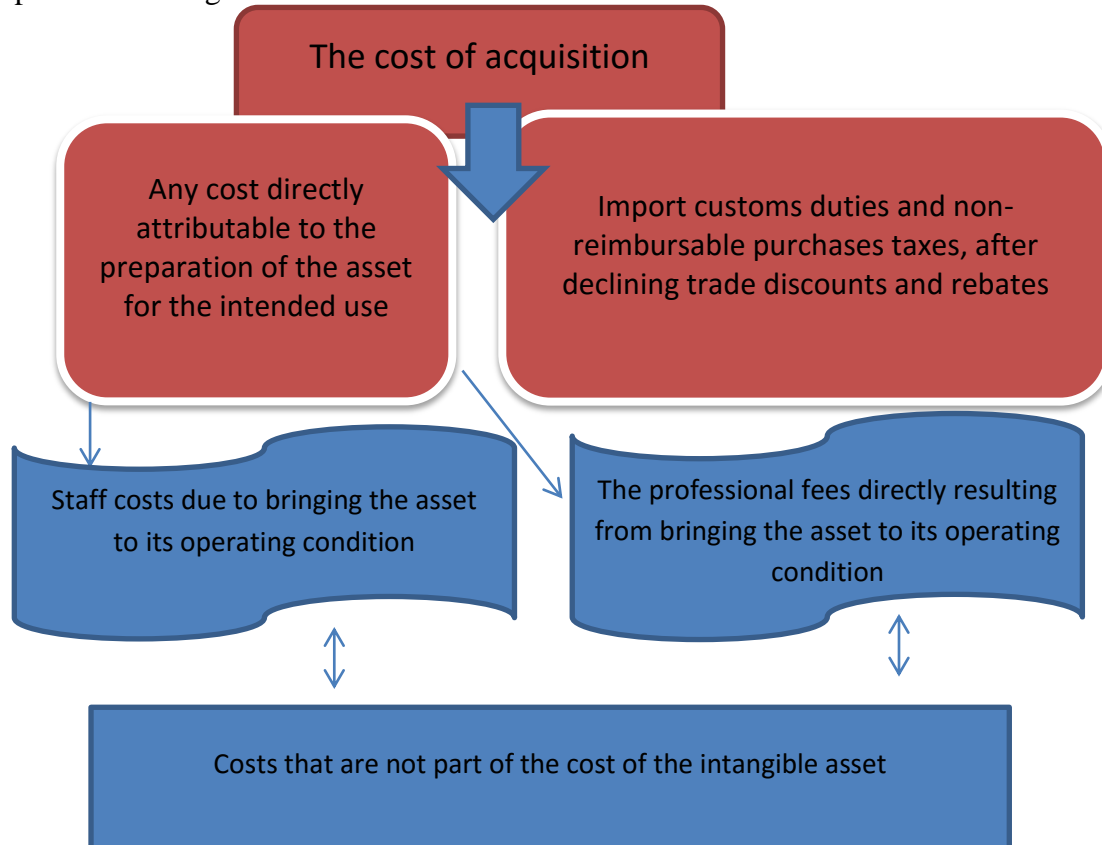
1. Those purchased with the title are valued at purchase price or acquisition cost, which includes, in addition to the price paid to the supplier and non-recoverable charges, the transport and supply costs, as well as the consumption of resources for putting the immobilization in use or entering the entity's management.

Acquisition cost means the price due and any related costs less any deductions in the cost of acquisition. The acquisition cost also includes commissions, notary fess, authorization fess, and other non-recoverable expenses attributable directly to those assets. Transport costs are included in the cost of acquisition and when the supply function is outsourced.

The cost of tangible asset includes costs initially estimated by dismantling and moving it on disposal, as well as the costs of restoring the location on which immobilization is located when these amounts can be reliably estimated and the entity has an obligation to dismantle, remove the tangible assets and rehabilitate the site.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset may be included in the cost of that asset insofar as it relates to the period of production.

Schematically, the cost of acquisition, as well as elements that are not included in this cost, are represented in Figure no. 5.



1. The costs of introducing a new product or service (including advertising and promotional costs);
2. The costs of doing business in a new place or a new class of clients (including, staff training costs);
3. Administrative costs and other overhead costs.

Figure no. 5. Components of acquisition cost and those are not part of the cost of acquisition

2. Assets obtained from own production are valued at cost of production. It consists of the purchase price of consumed materials, other direct production costs, as well as reasonable rationally allocated indices.

If, for example, the costs incurred in connection with the construction of a tangible fixed asset are taken into account, they concern:

Costs that represent employees' salaries, contributions and other related expenses

Material expenses

Site-fitting costs

Initial delivery and handling costs

Installation and location costs

3. Assets brought to the entity as in-kind consideration are valued at the intake amount, usually determined by authorized values, if they are not new, when the value of the consideration is set at the invoice value.

4. Assets received in the entity free of charge or in the form of donations are measured at fair value, which is determined by the market price, the usefulness of the asset, its status and location.

1.2 Further evaluation

Subsequent costs

Subsequent costs incurred in connection with an asset are *expenses in the period* in which the *asset's carrying amount is increased* or increased, depending on the economic benefits associated with these costs (eg, the impact on the remaining life of immobilizations), according to the general recognition criteria.

The entity establishes through accounting policies the criteria according to which the subsequent expenses incurred in relation to the fixed assets increase their value or are accounted for in the profit and loss account.

Expenses of the period:

- Daily maintenance and operating costs
- The costs of repairs and revisions that are performed to maintain the asset's performance
- Costs of planned inspections and technical maintenance that maintain asset performance

Costs that increase the value of the asset:

- The costs of upgrades and repairs that increase asset performance-increase the value of the asset
- The costs of planned inspections and technical revisions that increase asset performance-increase the value of the asset.

The valuation of fixed assets in the inventory with the balance sheet

For an assessment subsequent to initial recognition, an entity may choose to apply the underlying valuation rules or alternative valuation rules:

The valuation of property, plant and equipment at the balance sheet date is carried out

- Cost, less depreciation and accumulated impairment adjustments, or
- The revalued amount, being the fair value at the revaluation date, less any cumulative depreciation and any accumulated impairment losses.

The main aspects of the revaluation of tangible assets presented in OMFP 180/2014 are described below:

By way of derogation from the measurement based on the cost of acquisition cost or the cost of production, entities may proceed to the revaluation of existing tangible assets at the end of the financial year, so that they are presented in fair value accounting, reflecting the results of that revaluation in the financial statements prepared for that exercise.

Depreciation calculated for such revalued property, plant and equipment is recognized in the accounting for the financial year following that for which the revaluation was carried out.

If a fully depreciated fixed asset can be used, the entity may re-evaluate it. In the case of the revaluation of the tangible assets, it is set a new value and a new duration of economic use, corresponding to the estimated period to continue to be used.

Revaluation of property, plant and equipment is carried at fair value at the balance sheet date.

The fair value is determined on the basis of assessments made, as a rule, by authorized assessors, according to the law.

The fair value of tangible assets is generally determined from their market value, on the basis of the information that market participants would use when setting the price of the asset, assuming that market participants act to obtain a maximum economic benefit.

Fair value is *the price that would be charged for the sale of an asset in a regulated market transaction (if any) or the most advantageous, on the valuation date under current market*

conditions (ie an exit price) regardless of whether that price is directly observable or is estimated using another valuation technique.

If the fair value of a tangible asset can no longer be determined, the value of the asset presented in the balance sheet should be its revalued amount at the date of the last revaluation, deducting the cumulative value adjustments.

When revaluing a tangible asset, cumulative depreciation at the date of revaluation is treated in one of the following ways:

- a) Recalculated in proportion to the change in the gross carrying amount of the asset so that the asset's carrying amount after revaluation is equal to its revalued amount. This method is often use when the asset is revalued by applying an index, or
- b) Removed from the gross carrying amount of the asset and the net amount determined as a result of adjustment is recalculated to the revalued amount of the asset. This method is often used for buildings that are revalued to their market value.

If, after initial recognition as an asset, the value of a non-current asset is determined on the basis of the revaluation of asset, the amount of the revaluation will be attributed the asset instead of the cost of acquisition / cost of production or any other value attributable to that asset. In such cases, the amortization rules will apply to the asset given its value determined as a result of the revaluation.

In the case of the revaluation of tangible assets, this should be presented in the explanatory notes, together with the items subject to revaluation, the method by which the amounts presented and the item affected by the profit and loss account have been calculated.

If the revaluation of tangible assets is carried out, the difference between the value resulting from the cost or acquisition cost valuation and the value resulting from the revaluation should be presented in the revaluation reserve as a sub-item distinct in "Capital and reservs" (account 105 "Revaluation reservs").

The revaluation surplus included in the revaluation reserve is capitalized by direct transfer to retained earnings (account 1175, "Retained earnings accounted for revaluation reserve surplus") when that surplus represents a gain.

The gain is considered to have been made when the asset for which the revaluation reserve was created. However, part of the gain can be achieved as the asset is used by the entity.

In this case, the amount of the transferred reserve is the difference between the amortization calculated on the basis of the revalued carrying amount and the depreciation value calculated on the basis of the initial cost of the asset.

The revaluation reserve is reduced to the extent that the amounts transferred to it are no longer required to apply the revaluation-based accounting method.

The accounting treatment of the revaluation reserve is presented in Table no.1.

Table no.1. Treatment of revaluation reserve

1. If the result of a revaluation is an increase from net book value, then it is treated according:	
<ul style="list-style-type: none"> ➤ as an increase in the revaluation reserve presented under the item "Capital and reserves" , unless there has been an earlier decrease recognized as an expense related to that asset ➤ 21x = 105; 	<ul style="list-style-type: none"> ➤ as an income that offsets expense with the previously recognized decrease in that asset ➤ 21x = 755 ➤ For difference ➤ 21x = 105
2. If the result of a revaluation is a decrease in net book value, it is treated	
<ul style="list-style-type: none"> ➤ as an expense with the full amount of impairment, when an asset related asset (revaluation surplus) is not recorded in the revaluation reserve ➤ 655 = 21x 	<ul style="list-style-type: none"> ➤ as a decrease in the revaluation reserve presented under the item " Capital and reserves" , with the minimum of the amount of that reserve and the value of the decrease, and any remaining uncoverd difference is recorded as an expense ➤ 105 = 21x <ul style="list-style-type: none"> ➤ but for difference ➤ 655 = 21x.

Amounts that represent differences in the nature of income and expense arising from revaluation should be presented separately in the income statement (account 755 “ Revaluation income from tangible assets” , respectively 655 “ Expenses from revaluation of tangible assets” , as the case may be).

No part of the revaluation reserve can be distributed, directly or indirectly, unless it represents a realized gain.

For land and buildings that have been revalued and partially disposed of, the revaluation difference of the ceded portion is considered to be surplus from revaluation reserves corresponding to the carrying amount of the land or the buildings taken out of the revaluation of the book value, and is accounted for in account 1175 “ Retained earnings representing surplus from revaluation reserves”.

In the process of revaluation of tangible fixed assets, cumulative depreciation occupies an important place, this being determined by how it will be treated and the implications its treatment will have, as can be seen from figure no. 6.

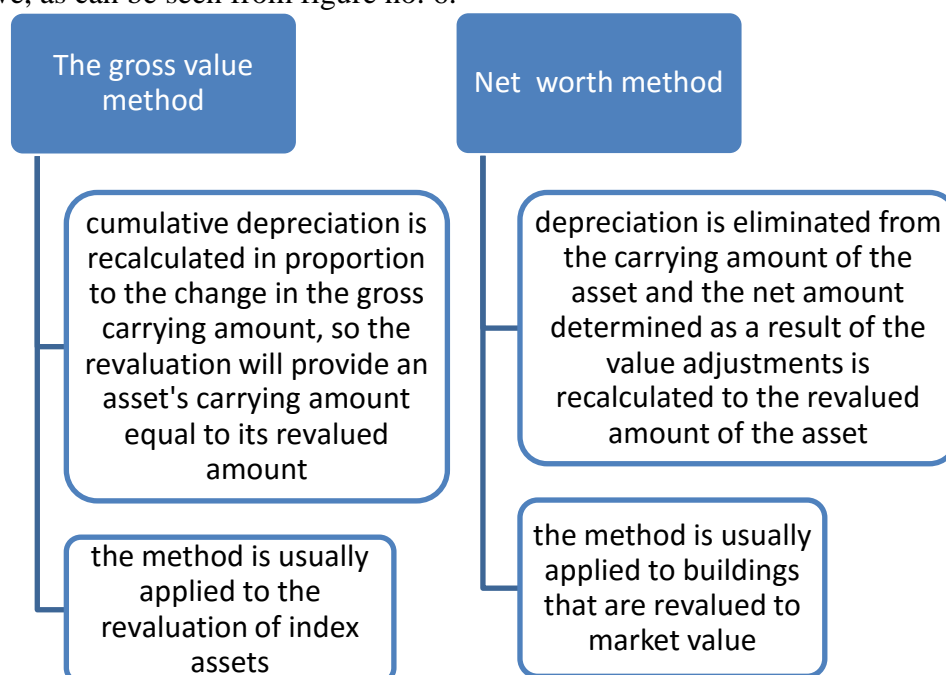


Figure no. 6. Treatments applied to cumulative depreciation

Value adjustments are calculated in each financial year on the basis of the revalued amount of those assets. If revaluation is performed, the explanatory notes shall show separately for each item in the balance sheet of the nature of the revalued tangible assets the following information:

- a) the historical cost of revalued assets and the amount of cumulative value adjustments; or
- b) the amount at the balance sheet date of the difference between the amount resulting from the revaluation and the historical cost and, where applicable, the cumulative amount of the additional value adjustments.

For the presentation in the annual financial statements, elements of the nature of assets, debts and equity *are valued at the book value agreed with the inventory results*.

When determining the inventory value of goods, the prudence principle will apply, according to which all value adjustments due to depreciation or loss of value.

The valuation of tangible assets on inventory is made at the inventory value, as determined by the inventory commission or by authorized valuers, according to the law.

They are the object of the valuation and the assets in progress.

Correcting the value of (...) (non) tangible assets and bringing them to inventory value is made, depending on the type of impairment, or by recording additional depreciation if irreversible

depreciation is found, or the creation or supplementation of impairment adjustments, if reversible impairment is found.

Estimation of fixed assets at the end of the entity or when released for consumption.

Fixed assets are valued at the entity's output and deducted from their value at their entry value or the value at which they are recorded in the accounting (eg: revalued value for tangible fixed assets that have been revalued or fair value for short-term securities admitted to trading on a regulated market).

When withdrawing from them, the adjustments for impairment or loss of value are reserved to income.

Conclusions

In the present paper, the description of the fixed asset valuation bases was made in association with the moments passing through them, essentially being in the first phase the entry of the immobilized assets into the entity, then passing to the way in which the subsequent expenditures interfere with these categories taking into account the importance of reflecting the information in the annual financial statements.

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