

## DIFFERENCES BETWEEN DAS AND INTERNATIONAL ACCOUNTING STANDARDS REGARDING FIXED ASSETS TREATMENT

Ana – Maria MĂLĂESCU<sup>1</sup>

---

### ABSTRACT:

*THE LEGISLATION ENVIRONMENT IN ROMANIA IS IN A PROCESS OF CONTINUOUS CHANGE, WITH THE AUTHORITIES MAKING NOTICEABLE EFFORTS IN ALLIGNING THE ACCOUNTING REGULATION TO THE EUROPEAN DIRECTIVES, ON ONE HAND AND IN REACHING CONVERGENCE WITH THE INTERNATIONAL ACCOUNTING FRAMEWORK, ON THE OTHER HAND.*

*ALL THESE ACTIONS ARE SUBORDINATED TO THE OBJECTIVE OF CREATING A PROPER ENVIRONMENT FOR THE DEVELOPMENT OF ECONOMIC RELATIONSHIPS, MAKING ACCOUNTING INFORMATION CREDIBLE, EASY TO UNDERSTAND AND RELIABLE, ESPECIALLY FOR THE INVESTORS. AN ACCOUNTING SYSTEM ALIGNED TO THE INTERNATIONAL REQUIREMENTS IS A SIGN OF A NORMAL ECONOMIC ENVIRONMENT. THUS THE LEGISLATOR AIMS AT MAKING ACCOUNTING INFORMATION COMPARABLE AND UNDERSTANDABLE BY ELIMINATING OR DECREASING TO THE MINIMUM THE DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL REGULATIONS.*

---

**KEYWORDS:** INTERNATIONAL ACCOUNTING STANDARDS, DIFFERENCES, ACCOUNTING, ASSETS TREATMENT.

### INTRODUCTION

Despite of the efforts made in this direction, differences still exist between national accounting standards and IFRS. In this paper I plan to analyze both the differences and the resemblances between the two accounting systems. In this view, I take into consideration the latest provisions in this field, namely Ordinance of the Ministry of Finance no.3055/2009, modified and amended by Ordinance of the Ministry of Finance no.2869/2010.

Ordinance of the Ministry of Finance no.3055/2009 has an original approach in respect of accounting treatments. On one hand it presents general aspects, which could be accepted as basic accounting treatments, and on the other hand it presents “special rules regarding” assets, without considering them as alternative accounting treatments. It is a case, where „national prevails in front of international“. According to Ordinance of the Ministry of Finance no.3055/2009 a fixed asset is an asset that is going to bring future economic benefits to the company and is held for a period of more than a year. The future economic benefits are

---

<sup>1</sup> PhD. Student, University of Craiova, Romania, Email : malaescu\_ana@yahoo.com

determined in terms of the potential of the asset contribute directly or indirectly to the cash in flows of the company or to become productive in the operating activity.

Tangible fixed assets are assets :

1. held by the company for use in the production of goods or for providing services, for rental to third parties or for administrative purposes ;
2. are used for a period of more than one year.

Ordinance of the Ministry of Finance no.3055/2009 preserves the old classification of tangible assets, as follows: land and buildings, technical installations and machinery, other installations, equipment and furniture, advances to suppliers of tangible fixed assets and fixed assets in the course of production.

Under IAS / IFRS enforcement, the second condition is a bit obsolete, because recognition is also given by „using the good for a couple of period“. Thus, the restriction regarding value has only tax purposes, because an amount of approximately EUR 375 is not significant for a company operating in a market economy. This provision represents the exception in the Romanian accounting system, a proof being the definition of non – current assets: „company’s assets for long – term usage“ under Ordinance no.3055/2009.

The elements mentioned above respect the general definition of a fixed asset under the international referential, although the distinction between current and non – current assets is more high – lighted in the second. Thus, according to IAS 1, an asset which cannot be classified as current is therefore a non – current asset. The emphasis is put on the use of the asset in more than one production cycles and not on the duration of precisely one year.

The Romanian classical approach stipulates that property right in „a subjective right which means juridical appropriation of a thing in a certain social form, which allows private persons, companies or state or its bodies, to possess, use and dispose of that thing, either direct or indirect, as the result of capitalization of the principal rights of its owners, subject to the legislation in force.“<sup>2</sup>

On the other hand, Ordinance no.3055/2009 speaks about patrimony, which represents a person’s rights and obligation having economic value. Property, in its juridical meaning, is a restrictive notion for the accounting legislation. In view of IAS / IFRS enforcement, the concept of „owned asset“ used in IAS 16 for defining tangible assets, shows that a transaction’s economic substance prevails over its juridical form. Ordinance no.3055 does not detail ownership, but only stipulates that they are used (possession) in the company’s activity, especially expressing prevalence of economic reality in front of the juridical one.

Valuation of tangible and intangible assets follows, basically, the general rules for evaluating balance sheet items. According to ordinance no.3055, „book value“ represents the gross historical value. According to IAS / IFRS, it represents the value at which an asset is accounted for in the balance sheet, less any accumulated depreciation to date, as well as accumulated depreciation losses, respectively net (book) value. In the comparison to the requirements of IAS 16 regarding initial recognition of a tangible asset, all those presented above are basis treatments.

The alternative accounting treatment proposed by Ordinance no.3055 concerns inclusion of interest expenses and expenses with exchange rate differences in the acquisition costs. It only allows capitalization of interest expenses and of expenses with exchange rate differences related to interests regarding loans, which finance acquisition, construction or production (direct attributable), subject to fulfilling all provisions of IAS 23.

---

<sup>2</sup> Bunget, Ovidiu; Caciuc, Leonora; Dumitrescu, Alin; Farcane, Nicoleta, Popa, Adina , *The impact of IAS / IFRS on the Romanian accounting rules*, Bucharest, 2008.

## **ACCOUNTING TREATMENT OF FIXED ASSETS. COMPARISON BETWEEN OMFP NO. 3055/2009 AND THE INTERNATIONAL REFERENTIAL**

A special attention should be granted to prudent enforcement of alternative accounting treatments. Net book value should be compared with the minimum between replacement costs and net realizable value resulting from selling or using the asset. Subsequent valuation means evaluation during stock take and as the balance sheet date. Stock take valuation means assets are valued at their current value (inventory value), according to the utility value, shape and market price.

Balance sheet valuation or closing valuation is based on the prudence principle, domestic regulations being best representation in this respect, "At year – end patrimonial elements are valued and disclosed in balance sheet at their addition value, respectively book in accordance with stock take results. At each balance sheet date monetary elements in currency are reported at year closing exchange rate, exchange rate differences, favorable or unfavorable, are registered as revenues or expenses, - non monetary elements are reported at the exchange rate of the transaction date, and non – monetary elements recorded at fair value and expressed in hard currency are reported to the exchange rate in force when assessing these values".

While book value represents the basic accounting treatment stipulated by Ordinance no.3055/2009, the alternative accounting treatment provides two possibilities: recognition of non – financial assets at revalued value, based on fair value at revaluation, less accumulated depreciation and / or value depreciation or losses or valuation based on inflation, which was valid during the period for implementation of the accounting system development program.

Regarding subsequent expenses, they follow the provisions of IAS 16, subsequent expenses related to a tangible asset already recognized "should be added to its book value, when it is estimated that the company will obtain future additional economic benefits in comparison to the initially estimated performances. All other subsequent expenses should be recognized in the period they have incurred".

There are also other regulations, which clarify these matters. "For complex fixed assets (consisting of many elements) and for fixed assets evidenced on section (methane gas), distribution pipes, roads, energy lines, etc.), there should be an inventory number for each element. In this cases, beside inventory numbers, we should also use additional number for numbering the fixed asset's elements for instance 1.001/1, 10.001/2, 10.001/3 etc."<sup>3</sup> (...)

Accordingly, repair of an element or its replacement represents a year's expense. Legal provisions, which stipulated capitalization of expenses made for modernizing fixed assets, are also important to mention. The consequences are that they actually improve the fixed asset's performances in comparison to the initial parameters, they ensure additional revenues in comparison to those provided by the initial fixed assets and modernization of buildings and constructions should increase confort and ambient.

## **DIFFERENCES IN FIXED ASSETS VALUATION. ADOPTION OF FAIR VALUE**

Valuation is the process of determining the value of an accounting structure for its correct disclosure in the financial statements of a company, in accordance with the accounting framewor. The accounting system in Romania is traditionally based on the historical cost valuation model by comparison with the international standards which promote the concept of fair value accounting.

---

<sup>3</sup> Ovidiu; Leonora; Alin; Nicoleta, Adina , *The impact of IAS / IFRS on the Romanian accounting rules...*

In the process of aligning to the European Directives and the international accounting referential, Romania adopted this notion, including in legislation the term of “just value”. In the sense of OMFP no.3055/2009, just value is defined as “the amount for which a good could be exchanged between knowledgeable, willing parties in an arm’s length transaction”<sup>4</sup> The definition is adopted from the international referential, where fair value is considered the basis for fixed assets valuation and is used in IAS 16, IAS 40 and IFRS 5.

Under the pressure of investors with increasing demands for accurate accounting information, the International Accounting Standards Board (IASB) first time adopted the fair value as valuation basis in 1998 for the valuation of financial assets regulated by IAS 32<sup>5</sup> and IAS 39<sup>6</sup>. Although fair value is the preferred measurement basis for all the companies applying IFRS, the notion still remains controversial generating debates worldwide.

It is argued by both accounting practitioners and theoreticians to be associated with a certain risk due to the fact that determining fair value is only an estimate which could lead to manipulator practices and creative accounting.

In Romania, the concept of fair value is relatively new, as mentioned above, and difficulties already arose in properly defining the term and especially in applying it in practice. The basis accounting valuation basis for fixed assets, according to OMFP no.3055/2009, is the historical cost adjusted with the accumulated depreciation and impairment. The just value is accepted as an alternative measurement basis in the case of revaluation of assets. Valuation should be performed according to OMFP no.3055/2009 in four situations, as follows at the date when the asset is acquired or produced, at the date of inventory, at balance sheet date and at disposal date.

## CONCLUSIONS

OMFP no.3055/2009 provides a basic valuation method based on historical cost and an alternative method based on determining the fair value of the assets. At the date when the asset enters the patrimony by acquisition or by production, it should be valued by according to the situation, as follows: at acquisition cost, if the asset is purchased in monetary terms, at the production cost if the asset is produced by own means or at fair value if the asset is received as a donation.

OMFP no.3055/2009 does not provide for the methods of determining the fair value but it stipulates that the valuation should be done by professional valuers, taking into considerations the information available on the specific market of the asset, if such a market exists. According to the order mentioned, the acquisition cost comprises the purchase price, import duties and any other duties paid in order to obtain the asset, transport costs and any other costs directly attributable to the purchase. It can be noticed that the elements of the acquisition cost respect the definition in IAS 16.

The production cost comprises the costs of raw materials and consumables utilized and the direct costs of producing the asset.

IFRS enforcement is not only a change in accounting regulation, but more than that, it represents a new system of performance valuation with new procedures, enforceable at company level. This change will influence also the working manner and will most probably bring decisive changes to strategic and accounting management. IFRS enforcement will also change the whole reporting basis for a wide range of users. An important step is the adoption of fair value measurement rules and the orientation towards satisfying the informational needs of investors.

<sup>4</sup> OMFP NO.3055/2009, ART.8.1.1. (2).

<sup>5</sup> IAS 32 – Financial Instruments Presentation.

<sup>6</sup> IAS 39 – Financial Instruments Recognition and Measurement.

March 2015

Also, the impact of IFRS enforcement on a company's financial statements could be influenced by the economic field in which the company develops its activity and by the Romanian accounting regulations applied before/

## REFERENCES

1. **Bunget, Ovidiu; Caciuc, Leonora; Dumitrescu, Alin; Farcane, Nicoleta, Popa, Adina** , *The impact of IAS / IFRS on the Romanian accounting rules*, Bucharest, 2008.
2. **OMFP no.3055/2009** for the approval of simplified accounting regulations harmonized with European Directives ;
3. **OMFP no.1827/2003** for amending certain regulations in the accounting field ;
4. **OMFP no.2869/2010** for amending and supplementing certain accounting regulations ;
5. \*\*\* **Financial Ministry**, *Practical guide for enforcement of International Accounting Standards*, Economic Publisher, Bucharest, 2001 ;
6. \*\*\* **Financial Ministry**, *Some aspects of the application of accounting regulations compliant with EEC Directive IV. Practical Guide*, 2009 ;
7. \*\*\* International Accounting Standards no.16, no.36 and no.40 ;
8. [www.iasplus.com](http://www.iasplus.com).