

CORPORAL IMMOBILIZATION REASSESSMENT ACCOUNTANCY AND TAX ALTERNATIVES

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Abstract: *The economic phenomena and process like the market evolution, the inflation and globalization have also triggered in accountancy the evolution from historical cost system to current cost. The corporal immobilization reassessment at the level of current cost must represent the real motivation to contribute to a truthful image of the patrimony and not a method of depreciating tax costs of economic operators.*

Key words: *current cost, reassessment, accounting alternatives, tax alternative, adjustments, corporal immobilizations.*

1. Introduction

The attainment of a truthful image that is useful to the decision making as finite product of the accounting process brings into close-up the objective assessment of the financial situation elements. The issue of assessment has been and is intensely debated both in practice and in accounting theory, having initially represented a matter of cost rather than one of value. [7]

For a long time, the general rule has consisted in the assessment, at the historical cost, applied upon entering the company patrimony, when the assets are assessed and registered at the entry value known as accounting value.

The economic phenomena and processes that took place lately, like market evolution, evolution of purchasing power, inflation and globalization have also triggered in accountancy the evolution from historical cost system to current cost. In fact, the current process of accountancy

globalization is mainly based on the concept of current cost.

IASB gives the following definition for current cost: “the cost at which an asset may be operated or a debt may be deducted between the interested and informed parties, within an objectively conducted operation”.

2. General aspects of corporal immobilization reassessment

Order no. 3055/2009 offers a detailed description of the methods by which reassessment operations may be carried out, the way results can be transposed into accountancy and accounting notes. Hence, entities can proceed with the reassessment of the corporal immobilizations existing at the end of the fiscal year, and this reassessment will be made at the current cost from the date of the balance sheet.

The current cost is determined based on the certain assessment made usually by professionals qualified to assess, members

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of some professional body, nationally and internationally authorized.

The reassessment results are then transposed into the financial status reports drawn up for the fiscal year in question.

The various elements of a group of corporal immobilizations are reassessed simultaneously to avoid selective reassessment and the insertion in the yearly financial status reports of costs that are, in fact, a combination of value costs computed on various dates, thus, once an immobilized asset is reassessed, all the other assets in its category must be reassessed, except when there is no market for such assets.

A group of corporal immobilizations comprises assets of the same kind and similar use, at service of a certain company.

Reassessment must be performed with sufficient regularity, so that the accounting cost would not differ substantially of that determined using the current cost of the balance sheet.

All these provisions were also included in Order no. 1752/2005, however Order no. 3055/2009 also brings certain novelties, here are some of the most significant:

- If a corporal immobilization that is completely depreciated can still be used, upon its reassessment there will be assigned a new value and a new economic life span.
- The current cost of the corporal immobilization is generally determined starting from their market value.

According to IAS 16, the basic alternative regarding the assessment subsequent to the initial acknowledgment of an asset is that a corporal immobilization must be registered at the cost of which the cumulated depreciation of up to that date will be deduced as well as any other losses cumulated from depreciation. It is, also, mentioned that

there is an accepted accounting alternative, consisting of a corporal immobilization having to be recorded at the reassessed cost that represents the current cost upon reassessment, minus any subsequently cumulated depreciation and subsequently cumulated losses from the depreciation. [2]

The adjustments for the depreciation of corporal immobilizations is usually determined by comparing inventory costs with net accounting cost and may, depending on their permanent or temporary kind, be: permanent adjustments (in case of irreversible deductions also known as depreciations), and temporary adjustments (reversible depreciations) called adjustments for depreciation or loss of value.

IAS 36 standard studies the assets depreciation, the method by which the company revises the accounting value of its assets and whether the company acknowledges or cancels a loss of depreciations, and to determine the size of expenses born with its depreciation 3 factors are taken into account: the entering value of the immobilizations, their life span and, of course, the estimate value or net amount the company is expected to obtain by the end of the depreciation interval (after the deduction of sales expenses), also known as residual value.

The adjustment of expense with the depreciation must generally be carried out at the end of each year, so that companies are obligated to estimate at this time the existence of internal or external clues regarding the loss in value of certain fixed assets and if so, the company must estimate the asset value still possible to recover.

In the case that the corporal immobilization assets are expressed in values reassessed according to IAS 16 foresees:

- Obligation to present the information concerning the actual date of

reassessment, if an independent assessment expert was involved

- Methods and main hypothesis applied to the estimation of current cost of elements
- Extent to which the current cost of elements have been directly determined in relation to the current prices existing on the market or have been determined through other assessment techniques
- For each reassessed category of corporal immobilizations indicate what may have been the acknowledged accounting value if the assets were recorded compliant with the model based on cost and reassessment surplus.
- Indicated the modification of the time frame and any further restriction with respect to the distribution of the stock to the stockholders.

3. Accounting aspects of corporal immobilization reassessment

Given the growing evolution of asset prices, periodic reassessment of the immobilized assets is performed. The reassessment is applied to these assets as their life span is much longer and are much more affected than the current assets.

Over time, reassessment was grounded on express legal provisions and aimed in particular the corporal immobilizations. Hence, the reassessment is not applicable to a sole component of the fixed assets, but to one or several categories of fixed assets (i.e., lands and buildings) or to all fixed assets.

From an accounting point of view, the reassessment of the immobilizations results in the constitution of the reassessment reserve, liability registered in the category of own capital.

The registration in accountancy of the differences resulting from the reassessments is carried out depending on the method accepted for illustrating

reassessed accounting values of entry, that is:

- The method of gross value used when invoking replacement cost since current market cost cannot be determined;
- The methods of net value used when it is possible to determine a current market cost of the reassessed asset.

In the case of the gross method or characteristic factor, the gross entry value and the cumulated depreciation are updated based on an updating factor, as it is the cumulated depreciation, if any.

In the case of the net method, the depreciation cumulated up to the moment of reassessment is cancelled, as is the depreciation commissions, if any, and the asset is brought to its net accounting value. After that the difference results from the reassessment is computed and registered.

The company's choice for either of the two methods must be specified in the approved accounting policies.

The underlining of the reassessment-derived reserves must be carried out for each separate corporal immobilization and on each reassessment operation performed.

If the result of the reassessment indicates an increase as compared to the net accounting value, the following alternatives are possible:

- As increase of the reassessment reserve presented within the "Capital and reserves" section (account 105 "Reassessment reserves"), if there had not been a prior decrease identified as an expense related to this particular asset; or
- As tax free income (account 7813) that would compensate the previously acknowledged decrease to that particular asset.

If the reassessment result is a decrease of the net accounting value, it may be handled:

- As a non-deductible expense (account 6813) with the depreciation's entire

value, when the reassessment reserve is not recorded an amount concerning that particular asset (reassessment surplus); or

- As a drop of the reassessment reserve presented within “Capital and reserves” (account 105 and not account 1065), with the minimum between the value of this reserved and the value of the decrease, while the possible difference left uncovered is registered as and expenses (non-deductible). [6]

The deduction of the reassessment reserves may be performed only within the existing balance, associated with the immobilizations in question (art. 246).

The reassessment surplus included in the reassessment reserve is capitalized by the direct transfer in reserves (account 1065 “Reserves representing surplus from reassessment reserves”), when this surplus is a profit.

Profit is considered attained upon eliminating from the records the asset for which the reassessment reserve was constituted (basic alternative).

A part of the profit may be attained as the active is still used by the company. The value of the transferred reserve represents the difference between the depreciation computed based on the reassessed accounting value and the depreciation value computed relying on the initial cost of the asset (alternative handling).

No part of the reassessment reserve can be directly or indirectly distributed, except where the reassessed asset has been capitalized, case in which the reassessment surplus represents a real profit.

According to OMFP 3055/2009 (art. 153): “When there is a change in the use of a corporal immobilization, meaning that it is about to be improved for sale, upon making the decision over the change of its destination, in accounting there will be recorded the transfer of the asset from the corporal category to stocks. The transfer

must be recorded at the non-depreciated value of the immobilization.”

If the corporal immobilization was reassessed, simultaneously with the reclassification of the asset, the reserve account proceeding from its reassessment is then closed.

In note no. 6 “Principles, policies and accounting methods” the financial reports will reveal, in the case of corporal immobilization reassessment, elements submitted to reassessment and methods to determine the values resulting from said reassessments.

4. Financial aspects of corporal immobilization reassessment

As of January 1, 2004, date of enforcement of the new Fiscal code, depreciation expenses related to the reassessment reserves have been regarded non-deductible expenses. These expenses were deductible prior to the enforcement of the new Fiscal code.

As of 2007 the methodological norms of enforcement of the Fiscal code foreseen the inclusion in the fiscal value of the fix means and reassessments, carried out compliant with the law, and:

- Reassessments performed compliant with the law until December 31, 2003;
- Reassessments performed after January 1, 2007;
- Part left un-depreciated, registered in the balance on December 31, 2006 for the reassessments performed between January 1, 2004 and December 31, 2006.

As of January 1, 2008, the computation of fiscal depreciation of fix reassessment means was clarified by the amendment and addition of the Fiscal code. Thus, compliant to the provisions of art.7 paragraph (1) section 33 letter c) of the Fiscal code, amended and added, the fiscal value of fix means to depreciated also

include accountancy reassessments performed compliant with the law.

As of May 1, 2009, depreciation expenses associated with the reassessment reserves are still considered deductible expenses but the depreciation expenses associated with the reassessment reserves constituted after January 1, 2004 are also regarded as taxable income, quota-share of the depreciation expenses afferent to the reassessments, taxable as these expenses are recorded.

The taxation of the reserves from the reassessment of fix means assigned/annulled was regulated as of January 1, 2004 by the Methodological norms of enforcement of the Fiscal code. Section 12 of the Norm, given for the enforcement of art.19 of the Fiscal code, stipulated for the reserves from the reassessment of asset assignment or annulment, if deductible from the taxable profit, to be income similar element, and taxable upon deduction from administration of the reassessed fix means.

As of January 1, 2008, the above provisions were abrogated by Government Decree no. 1.579/2007 in amendment and addition of the Methodological Norms for

the enforcement of the Fiscal code. Thus, after said date, the reassessment reserves were considered income similar elements compliant with the provisions of art.22 paragraph (5) din Fiscal code, upon changing the destination of said reserves.

As of May 1, 2009, the taxation of the reserves from the reassessment of the assigned/annulled fix means is performed upon deduction from administration of said fix means, if the reserves pertain to a reassessment performed after January 1, 2004, compliant to Government Emergency Decree no. 34 of April 11, 2009.

5. Examples

Example 1:

A real estate property has the accounting value of 30.000 lei and its normal life span is 20 years. After 8 years it is reassessed and the update factor is 120%. The registration of the reassessment in the accounting books will be performed according to the gross value method. The reassessment reserve is incorporated in the reserves representing the surplus attained from the reassessment.

$$\begin{aligned} \text{Updated accounting value} &= \text{not-updated accounting value} * \text{updating factor} = \\ &30.000 * 120\% = 36.000 \text{ lei.} \end{aligned} \tag{1}$$

Value of updated cumulated depreciation = value of not updated depreciation * updating factor = $30.000/20 * 8$ (value of not-update depreciation = 12.000 lei) * 120% = 14.400 lei.

The reassessment difference associated with the accounting value = updated accounting value – not updated accounting value = $36.000 - 30.000 = 6.000$ lei.

The difference between the accounting value plus and the depreciation plus = $(36.000 - 30.000) - (14.400 - 12.000) = 6.000 - 2.400 = 3.600$ lei.

1. Registration of the reassessment in accountancy

212	= %	6.000
	105	3.600
	2813	2.400

2. Yearly transfer in reserves of reassessment reserve surplus
 $14.400 - 12.000 = 2.400 / 12 = 200$
 $105 = 1065 \quad 200$

Example 2 *span 20 years. The table below shows the information on the successive reassessments of the building:*
 A trade company owns a building of an accounting value of 50.000 lei, normal life

Table 1

Item no.	Reassessment date	Current cost
1	After 5 years	60.000
2	After 10 years	35.000
3	After 12 years	8.000
4	After 18 years	5.000

The registration of the reassessment stock, as result of its tear and the operations is done using the method of net value. At the end of the exploitation time the building is eliminated from the asset reassessment differences are transferred into reserves.

Reassessment no. 1 (2)

Depreciation cumulated by the end of the 5 years of exploitation: $50,000 / 20 \text{ years} = 12.500 \text{ lei}$.

Net accounting value = accounting value – cumulated depreciation value = $50.000 - 12.500 = 37.500 \text{ lei}$.

Reassessment difference = current cost – net accounting value = $60.000 - 37.500 = 22.500 \text{ lei}$.

Re-computation of yearly depreciation after the first reassessment = current cost / remaining life span: $60.000 / 15 \text{ years} = 4.000 \text{ lei}$.

Option 1

a) Elimination of the cumulated depreciation from the accounting value

$2812 = 212 \quad 12.500$

b) Reassessment difference

$212 = 105 \quad 22.500$

Option 2

% 105 22.500

212 10.000

2812 12.500

Reassessment nr.2

Depreciation cumulated by the end of the 10th year of exploitation = $4.000 * 5 \text{ years} = 20.000 \text{ lei}$.

Net accounting value = $60.000 - 20.000 = 40.000 \text{ lei}$.

Difference from negative reassessment = 35.000-40.000 = -5.000.s

Re-computation of yearly depreciation after the second reassessment = 35.000/10 years=3.500 lei.

b) Elimination of the cumulated depreciation from the accounting value

2812 = 212 20.000

Reassessment difference

105 = 212 5.000

Reassessment nr. 3

Depreciation cumulated at the end of the 12 years of exploitation = 3.500*2years = 7.000 lei.

Net accounting value = 35.000-7.000 = 28.000 lei.

Difference from negative reassessment = 8.000-28.000 = -20.000.

Re-computation of yearly depreciation after the third reassessment = 8.000/8 years = 1.000 lei.

Accounting books:

c) Elimination of the cumulated depreciation from the accounting value

2812 = 212 20.000

Reassessment difference

% 212 20.000

105 17.500

6588 2.500

Reassessment no. 4

Depreciation cumulated at the end of 18 years of exploitation = 1.000*6ani = 6.000 lei.

Net accounting value = 8.000-6.000 = 2.000 lei.

Difference from negative reevaluation = 5.000-2.000 = 3.000.

Re-computation of yearly depreciation after the second reassessment = 5.000/2 years=2.500 lei.

Accounting books:

d) Elimination of the cumulated depreciation from the accounting value

2812 = 212 6.000

Reassessment difference

212 = % 3.000

105 500

7588 2.500

a. Elimination from the records of the fully depreciated building:

2812 = 212 6.000

b. Transferring the reassessment differences into reserves:

105 = 1065 500

Conclusion

The corporal immobilization reassessment at the level of current costs represents an accounting alternative to the historical cost concept adopted to the end

of contributing to the truthful image of the patrimony and of the results achieved.

Generally though, in practice, the real motivation to adopt this system is to diminishing the fiscal costs, reason why adopting the alterative system concerning

the corporal immobilization reassessment is a very important decision that had and has long term effects on the company. This decision must not only be taken for the sake of attaining a certain number of short term fiscal advantages, as these may turn into genuine “fiscal bombs” on the long run. [6]

Therefore, an accounting record as transparent as possible on the matter of reassessment may determine the elimination of any and all risks related to the application of an erroneous fiscal alternative.

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