Bulletin of the Transilvania University of Braşov
Series V: Economic Sciences • Vol. 14(63) No. 2–2021
https://doi.org/10.31926/but.es.2021.14.63.2.7

REVALUATION OF THE TANGIBLE ASSETS – OPTION ACCESSIBLE TO COMPANY MANAGERS

Carmen E. ANTON[1]

Abstract: *Accounting policies are access ways which companies can use to fulfil the development strategies envisaged. According to the accounting regulations currently applicable in Romania, the accounting policies are specific to each company and subject to approval by the management, and they are constantly applied from one financial year to another. The revaluation of the tangible assets is part of the options available to managers. Nevertheless, their implementation is based on a prior analysis of the impact on performance. The aim of this paper is to identify the influences that this accounting policy has on the company's performance.*

Key words: *accounting policies, tangible assets revaluation, profit tax, taxes and duties, performance.*

1. Introduction

The company's performance is outlined by its ability to generate benefits as a result of the transactions carried out in its business. The accounting treatment applicable to them is designed within the existing accounting policy manual of the company. Accounting policies are those particular rules, principles, practices used by a company to provide the accounting information through financial statements.

In this context, the entities design the architecture of optimizing the ratio between the accounting and the fiscal interest by applying all the existing accounting treatments in the accounting regulations, but also the fiscal ones. The issue of sizing taxes and duties as low as possible, still complying with the laws, as well as capitalizing on all options to minimize them falls within the field of study of creative accounting by applying accounting policies specific to the entity (Anton, 2021).

The accounting policies that make up the entity's policy manual (approved by the directors) are used as tools to control and manage the economic transactions carried out by the entity and a source of capitalization of economic decisions useful to shareholders.

As such, establishing the accounting policies correlated with the fiscal rules within the companies must take into account its future development, business plans, budgets, overall strategy, but also the transmission and presentation of accounting information in

[1] *Transilvania* University of Braşov, carmen.anton@unitbv.ro, ORCID ID: 0000-0002-9154-0752

accordance with „reality, accuracy, relevance, sincerity, continuity or permanence" (Horomnea, 2013).

This study considers the process of revaluation of tangible assets such as buildings both in terms of impact on local taxes and duties, and also on profit tax and, implicitly, on performance. According to „the Order of the Ministry of Public Finances 1802/2014 for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements" (OMFP), art. 106, „revaluations must be made with sufficient regularity, so that the book value does not substantially differ from that which would be determined using the fair value from the balance sheet date". In correlation with the accounting treatment, the fiscal regulation on local taxes and duties must be considered.

Thus, „Law no. 227/2015 on the Fiscal Code, Title IX- Local taxes and duties", art. 460, para. 2 and 5 stipulates for the tax on buildings belonging to legal entities a share between 0.2% - 1.3% (including this value) of the taxable value of the building. Taxable value means the value updated every 5 years according to an appraisal report, and the tax rate is determined by the local council.

The building tax rate changes to 5% if the company has not updated the taxable amount „in the last 5 years prior to the reference year" according to art. 460 paragraph 8 of the Fiscal Code, as it can be amended by the decision of the local council.

Given these circumstances, the process of revaluation of tangible assets is analysed from the point of view of the relationship with the company's result as an option available to the managers of the entities.

2. Research Methods

The purpose of the study is to analyse the impact of the process of tangible assets revaluation on the company's performance. The study has the following objectives:

- to determine the accounting treatment of the tangible assets;
- to establish the amount of the building tax according to the accounting policy applied to tangible assets;
- to size the entity's performance according to the accounting policy applied to tangible assets.
- to give a tabular presentation of determinations.

The research methodology involves the study of regulations in the field, and of the literature, correlation, observation and case study. All these are combined in a succession of stages, based on study and critical thinking (Andone et al., 2013).

3. Research Results

The analysis involves determining the result in the two situations: ***a***. performing the revaluation of the tangible assets, the calculation of the building tax and the impact on the result; ***b***. maintaining the tangible assets, such as buildings at the historical cost, determining the tax on buildings and the result of the company.

***a.** The company chooses to apply the revaluation of tangible assets, such as buildings, as revaluation policy.* Thus, OMFP no. 1802/2014 stipulates at point 108 that, in this situation, the difference between the value after revaluation and the value at acquisition or production cost is presented in the balance sheet at the revaluation reserve, as a separate sub-item in „Capital and reserves" (account 105 „Revaluation reserve"). The revaluation surplus is transferred to the realization of the direct gain in the carried forward result (account 1175 *„Other retained earnings due to surplus on revaluation reserves")* or transferred as the amortization is recorded, but only with the difference determined between the depreciation based on the revalued carrying amount and the depreciation calculated based on the initial cost of the asset, gradually at the use of the asset.

For example. Company X SA has in its records a building that at the end of year N registers an accounting value of 210,000 lei, the cumulative depreciation of 84,000 lei, and „the depreciation method is the linear one". The lifespan of the building is 50 years. The asset is revalued at 31.12.N by *proportionally recalculating both the gross value of the building and the depreciation, and the revalued value* is 224,700 lei.

Taking into account a level of operating expenses in the year N + 1 of 25,200 lei and that the income amounts to 50,700 lei, the study is performed according to the option of the building revaluation manager at 31.12.N.

✓ ***The accounting reflection is the following (31.12.N)***

212 „Buildings"	=	105 „Revaluation reserve"	14,700

✓ ***Registration of the depreciation difference after the revaluation (31.12.N)***

The updated depreciation using the initial wear degree Gr_u = Am/Vi*100 = 84,000 lei/210,000 lei*100 = 40%

Updated depreciation = Revaluated value * degree of wear = 224,700 lei *40%= 89,880 lei

Depreciation difference to be recorded = 89,880 lei – 84,000 lei = 5,880 lei

105 „Revaluation reserve"	=	2812 „Depreciation of buildings"	5,880

✓ ***The accounting reflection of the depreciation expenses in the year N+1***

Determining the annual depreciation after the building revaluation = Net accounting value / remaining lifespan = (224,700 lei -89,880 lei)/(50 years – 20 years)= 4,494 lei

6811„Depreciation of non current assets"	=	2812 „Depreciation of buildings"	4,494

✓ Determining the building tax in year N+1, considering the revaluation value and the decision of the local council Y if an additional share of 0.5% to the level of the tax of the building owned by legal entities, tax stipulated by art. 460 paragraph 2 of Law no. 227/2015 on the Tax Code.

Buildings tax in year N+1 = 224,700 lei*0.7% = 1,572.9 lei

635 „Other taxes, duties and similar expenses"	=	446 „Other taxes and similar liabilities"	1,572.9

✓ ***Calculation of the result and determination of the income tax (N+1)***

„Profit (loss) for the period" = Incomes-Total expenses = 50,700 lei – (25,200 lei +4,494 lei + 1,572.9 lei) = 19,433.10 lei

„Income tax" = 19,433.10 lei * 16% = 3109 lei

691 „Income tax"	=	441 „Income tax"	3109

✓ ***The accounting reflection of the closing of expenses and revenues, in the year N+1***

121 „Profit (loss) for the period"	=	%	34,375.90
		6811 „Depreciation of non current assets"	4,494.00
		635 „Other taxes, duties and similar expenses"	1,572.90
		691 „Income tax"	3,109.00
		„6xx Other operating expenses"	25,200.00

„7xx -Revenue accounts"	=	121 „Profit (loss) for the period"	50,700.00

„R (Loss for the period)"= 50,700 lei - 34,375.90 lei = 16,324.10 lei

b. *The company chooses to apply as accounting policy the maintenance of buildings and their outlining in accounting at historical cost*. Under these conditions, the analysis regarding the determination of the building tax with the new tax rate according to the Fiscal Code and the decision of the local council is resumed.

For example, the company X SA has in its records a building that at the end of year N registers an accounting value of 210,000 lei, the cumulative depreciation of 84,000 lei, and the „depreciation method is the linear one". The lifespan of the building is 50 years.

Taking into account a level of operating expenses in the year N + 1 of 25,200 lei, and the level of income is 50,700 lei, the study is performed according to the management's option to maintain the building at historical cost and apply the fiscal code with the amendment brought by the local council decision (5% plus an additional share of 2.5%).

At the end of year N, in the accounting of the company X SA, the building remains highlighted at the historical cost of 210,000 lei, and the registered depreciation is 84,000 lei. For the year N + 1 the following accounting reflections appear:

✓ ***Accounting reflection of depreciation expenses in year N + 1***

Determining the annual depreciation at the initial value of the building = Net book value / remaining life = (210,000 lei-84,000 lei) / (50 years-20 years) = 4,200 lei

6811„Depreciation of non current assets"	=	2812 „Depreciation of buildings"	4,200

✓ Determining the building tax, in the year N+1, considering that the value of the building has not changed over the last 5 years.

Building tax, in the year N+1 = 210,000 lei*7.5% = 15,750 lei

635 „Other taxes, duties and similar expenses"	=	446 „Other taxes and similar liabilities"	15,750

✓ ***Calculation of the result and determining the profit tax (N+1)***

„Profit (loss) for taxation" = Incomes-Total expenses = 50,700 lei – (25,200 lei +4,200 lei + 15,750 lei) = 5,550 lei

„Income tax" = 5,550 lei*16% = 888 lei

691 „Income tax"	=	441 „Income tax"	888

✓ ***The accounting reflection of the closing of expenses and revenues, in the year N+1***

121 „Profit (loss) for the period"	=	%	46,038
		6811 „Depreciation of non current assets"	4,200
		635 „Other taxes, duties and similar expenses"	15,750
		691 „Income tax"	888,00
		„6xx Other operating expenses"	25,200

„7xx -Revenue accounts"	=	121 „Profit (loss) for the period"	50,700

„R (Loss for the period)"= 50,700 lei - 46,038 lei = 4,662 lei

At the end of the analysis, the comparison between the results obtained following the impact of the management's option to revalue the tangible assets as an accounting policy and the option to maintain them at historical cost is presented centrally.

Results summary - *lei* - Table 1

Designation	**Year N+1**	
	Revaluated building	**Building at historical cost**
"Other taxes, duties and similar expenses"	1,572.90	15,750
"Income tax"	3,109	888
"Profit (loss) for the period"	16,324.10	4,662

The study reveals that the entity's performance is significantly lower when the management option aims at keeping the buildings at historical cost, compared to the option of revaluation of the tangible asset.

4. Conclusion

In the current market competition, an entity must give priority to the needs and requirements of its clients (Neacșu, 2020) and depends on the benefits and profits that come from the transactions carried out during the activity.

The determination and adoption of accounting policies is the result of the analysis of the impact they have on the entity's performance (Cernușca, 2012) and on the total assets highlighted in the balance sheet. Taking into account the freedom of action of the management in establishing the estimation policies and techniques, it can be considered that the choice made aims at increasing the company's value in consensus with "ethics, morals and even religion" (Afrăsinei, 2016, apud Horomnea, 2011).

In specifying the accounting policies, the company's management must take into consideration [Petre et al., 2011] ensuring the continuity of their application. The principle presupposes the pursuit of the purpose of the financial statements which is to transmit comparable information necessary for the consumers of accounting information making economic decisions. Accounting policies are established as a result of medium and long-term estimates, with the analysis of the effects of applying one policy or another on the result recorded by the entity. The information needs of the users of the financial statements are met by providing information on the accounting policies considered in preparing the annual accounts and any changes to these policies through the explanatory notes.

References

Afrăsinei, M.B., 2016. *Contabilitatea și fiscalitatea societăților offshore*. București: Editura C.H. Beck, p. 104.

Andone, I., Georgescu, I., Toma, C., Solomon, D. C., 2013. *Metodologia și etica cercetării științifice în contabilitate și sisteme informaționale*. Iași: Ed. Tehnopress, pp. 80-81.

Anton, C.E., 2021. The synergy between the professional judgment, creativity în accounting and accounting policies. In: *Bulletin of the Transilvania University of Braşov,* Series V, Vol. 14(63) No. 1- 2021, pp. 87-94.

Cernușca, L., 2012. Invitație la reflecție privind elaborarea și fundamentarea politicilor contabile de întreprindere. In: *Contabilitate, control și guvernanță*, *Liber Amicorum* în onoarea Profesorului Niculae Feleagă. Editura Economică, p. 290.

Horomnea, E., 2013. *Dimensiuni științifice, sociale și spirituale în contabilitate. Geneză, Doctrină. Normalizare. Decizii*. Iași: Ed. Tipo Moldova, p. 452.

Law no. 227/2015 on the Fiscal Code https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_11022020.htm, accessed at 10.09.2021.

Neacsu, N.A., 2020. The Customer-oriented Strategy - A Tool for Increasing Customer Satisfaction. *Bulletin of the Transilvania University of Braşov,* Series V, vol. 13 (62), No. 1, pp. 49-56.

Order of the Minister of Public Finances no. 1802/2014 for the approval of the Accounting Regulations on the individual annual financial statements and the consolidated annual financial statements, https://static.anaf.ro/static/10/Anaf/legislatie/OMFP_1802_2014.pdf, accessed at 05.09.2021.

Petre, G., Lazăr, A., Iancu, E., Avram, M., Duinea, E., Petre, D. *Politici contabile în condiţiile aplicării Reglementărilor contabile conforme cu Directiva a IV-a a CEE, aprobate prin Ordinul ministrului finanţelor publice nr. 3055/2009, cu modificările şi completările ulterioare.* Bucureşti, Monitorul Oficial, 2011, pag. 39.