

REASSESSMENT, ACCOUNTING POLICY ON TANGIBLE PRESENTATION IN THE FINANCIAL STATEMENTS

**Associate Professor Firescu Victoria
University of Pitesti
Faculty of Economics
Pitești, România**

Abstract: This paper aims to present some important aspects of the decision revaluation of tangible assets in the financial statements of the Romanians companies .Reassessment of the assets shows special interest for the beneficiaries accounting information because only a suitable policy will lead to credibility assessment and relevant data financial statements of assets. Although there have been numerous concerns to find optimal pricing model, currently neither practitioners nor researchers have not reached a consensus on optimal accounting measurement. The Romanian accounting, revaluation model leads to tangible assets revalued amount, respectively the amount tangible asset's fair. The main factors influencing variables revaluation policy are presented in the paper and analyzed in terms of their correlation with reassessment decision

JEL classification: M41

Key words: revaluation, historical cost, fair value, measurement, tangible assets

1. INTRODUCTION

The literatures are presented two models for valuing assets: historical cost and fair value. Advantages and disadvantages of these models to assess led to controversial debates on accounting measurement objectivity, credibility and relevance of accounting information provided. Empirical research shows that historical cost evaluation is objective because this basis of measurement is based on documents reflecting transactions accounted for as verifiable. But, given estimates that addressed basic measurement for assessing receivables for determining revenues from long-term contracts, that the objectivity of historical cost is not met.

The manner of determining fair value, the estimates of future events and transactions is a subjective measurement basis in terms of psychological factors that evaluators are subject to random errors in their reasoning. However supporters of fair value considers this model of evaluation is more objective and neutral than historical cost

Thus, estimating assets under historical cost depreciation is based on the different interests of those who prepare financial statements. IASB and FASB have different approaches to valuation. So FASB recommends fair value only for financial instruments and prohibits accounting unrealized gains from changes in fair value. Impairment losses are recognized only to goodwill resulting from business

combinations, for a limited number of tangible and intangible. Instead, IAS-IFRS standards with the option to revalue tangible and intangible assets recognized unrealized gains in return for the revaluation reserves that recognize the comprehensive income. In the same manner, IAS-IFRS recognize unrealized gains and losses from changes in fair value of investment property and the biological assets. Romanian regulations allow to measure at fair value assets received free stock and plus inventory. Also, in accordance with national accounting, you can opt for revaluation of tangible assets on the financial statements, which means that they are recognized and carried at fair value. For many accounting professionals in Romania, fair value is the value market that offers the greatest objectivity of accounting information, because it cannot be manipulated by the management company for various interests.

But in the current economic crisis, when markets cease to be active and liquid, the fair value determined based on the market often induces uncertainty. Fair value of tangible assets is governed by IAS 16. The frequency of revaluation depends upon the changes in fair value of tangible assets, the recommended annual reassessment "significant changes" of this value. Revaluation reserves as depreciation adjustments (if historical cost) are a result of the subsequent evaluation of the assets. Romanian recommendations respect IFRS on revaluation of the results and also treats revaluation surplus.

2. THEORETICAL AND EMPIRICAL RESEARCH ON REVALUATION OF TANGIBLE ASSETS

Specialists in domestic and foreign literature there are numerous articles dealing revaluation of tangible assets

Matiş and Mustaţa (2004) recommend a mixed model for assessing tangible by concomitant use of the two measurement bases: historical cost and fair value. Believe that assessing tangible both historical cost and fair value is not justified in terms of cost benefit in producing reliable and relevant accounting information

Feleagă (2006) found that works that address fair value measurement, highlight the disadvantages of traditional evaluation model based on historical cost. According to Brown managers are motivated to do voluntary revaluation of tangible assets through the impact of this process of fair value of share value.

However, in our view, managers are concerned about the cost and time of reassessment and are not indifferent when the cost of the fair value exceeds the benefit. Missonier mentions a number of factors (size, leverage, ownership structure, investment opportunities and so on) which determine the decision revaluation of tangible assets.

Empirical research on the impact of certain economic factors on the decision to revalue tangible assets were made over time by many researchers like Cotter and Zimmer, Barlev, Henderson and Goodwin

3. RESEARCH METHODOLOGY

Research work is done with Eviews program, using quantitative methods based on non-participating observation, documentation and interpretation. Research approach is positivist, constructive. To study the impact of economic factors on revaluation of property, plant and we selected a representative sample of 40 companies listed on BVB, in a transversal analysis during a single financial year. In analysis and interpretation revaluation policy of economic entities, we started from the definition of variables, as follows.

Independent variables considered in the present study are:

- indebtedness of the entity calculated as the ratio between total debt and total assets;
- size of tangible assets determined as a percentage tangible assets in total asset value.
- company size expressed by the equity size

In our research, we have established on the observation that indebted company is motivated to improve their creditworthiness and therefore it applies revaluation of tangible assets.

We believe that a big company to provide users relevant information is motivated to reassess tangible.

Dependent variable , revaluation decision quantifies:

- a) 1, if the entity under study presents tangible assets in the financial statements at historical cost (revaluation policy does not apply);
- b) 2, if the entity applies the revaluation of tangible policy (assessed property plant and equipment at fair value);
- c) 3, if the entity applies the mixed model evaluations (fair value of certain assets and the historical cost of other tangible assets).

Policy evaluation of each economic entity we quantify it based on data provided by the Explanatory Note No. 6

Research hypotheses we formulated as follows:

- 1. Revaluation decision is directly correlated with the degree of indebtedness of the company.**

Table no.1 Data regarding evaluation policy, the value of assets and liabilities

Company name	Evaluation policy	Total assets	Total liabilities
SIF BANAT CRIȘANA SA	1	655964887	117418123
S.C. ALRO S.A.	1	2304497660	845246160
S.C. TURBOMECANICA S.A.	1	171019959	84088051
S.C. STIROM S.A.	1	353262709	113955196
S.C. PRODPLAST S.A.	1	46752112	2109566
IND.ELECTROCONTACT S.A.	1	15311746	2305438
ELECTROPUTERE S.A.	1	464957238	347815290
SC BIOFARM SA	1	164865638	19104638
SC SIF TRANSILVANIA SA	1	7151906305	4799695523
SC CERAMICA SA IASI	1	165723968	56838228
OLTCHIM SA	1	2159220398	2677915272
SC IMPACT CONTRACTOR SA	1	461659952	139419390
SC FLAROS SA	1	11779922	1225923
BERMAS SA SUCEAVA	1	27355133	5681129
VES SA	1	48838424	25251274
SC PICON SA	1	6734825	268849
SC MOBEST SA	1	9813204	709322
SC ELECTROCARBON SA	1	144155762	33150048
SC STELA SA	1	6311473	1433362
SC UNIVERS S.A	1	10866976	1054619
SC AZOMURES SA	1	97673906	156849349
JATEX SA BOTOSANI	1	8769123	3700766
S.C. GALGROS SA GALATI	1	22988270	550953
UPET SA TARGOVISTE	1	146205308	25651301
CONCEFA SA SIBIU	1	253613207	146675309

OMV PETROM S.A.	1	34765000	16306000
SC GRANITUL SA BUCURESTI	2	8508944	737718
S.C. AEROSTAR S.A.BACAU	2	115792973	36915620
FARMACEUTICA REMEDIA SA	2	135343086	108082589
SC RAFO SA ONEȘTI	2	653278295	241148303
SIF MUNTENIA S.A	2	1328792044	94363175
AGRANA ROMANIA SA BUC	2	353369043	284820296
SC ZETIVA SA.	3	396276499	56925965
SC ZAREA SA BUCURESTI	3	145899236	60094940
CARBOCHIM SA	3	73918197	9430531
PREFAB SA BUCURESTI	3	247487471	33172933
SC ANTIBIOTICE SA	3	376700408	110652469
SC BANCA TRANSILVANIA SA	3	2.1589	19472184
SC RECO SA	3	10160409	2152908
SNTGN TRANSGAZ SA	3	3835594501	1217915914

Source: Financial statements of companies listed on the Bucharest Stock Exchange

The table above presents data on the value of assets and liabilities and quantify revaluation policy chosen by firms in the sample.

Indebtedness is determined as the ratio between total debt and total assets for each company as shown in the table below

Table.no.2. The information needed to calculate the correlation between policy evaluation and indebtedness

Company name	Evaluation policy	Indebtedness
SIF BANAT CRIȘANA SA	1	0.179
S.C. ALRO S.A.	1	0.367
â.S.C. TURBOMECANICA S.A.	1	0.492
S.C. STIROM S.A.	1	0.323
S.C. PRODPLAST S.A.	1	0.045
IND.ELECTROCONTACT S.A.	1	0.151
ELECTROPUTERE S.A.	1	0.748
SC BIOFARM SA	1	0.116
SC SIF TRANSILVANIA SA	1	0.671
SC CERAMICA SA IASI	1	0.343
OLTCHIM SA	1	1.240
SC IMPACT CONTRACTOR SA	1	0.302
SC FLAROS SA	1	0.104
BERMAS SA SUCEAVA	1	0.208
VES SA	1	0.517
SC PICON SA	1	0.040
SC MOBEST SA	1	0.072
SC ELECTROCARBON SA	1	0.230
SC STELA SA	1	0.227
SC UNIVERS S.A	1	0.097
SC AZOMURES SA	1	1.606
JATEX SA BOTOSANI	1	0.422
S.C. GALGROS SA GALATI	1	0.024
UPET SA TARGOVISTE	1	0.175
CONCEFA SA SIBIU	1	0.578
OMV PETROM S.A.	1	0.469
SC GRANITUL SA BUCURESTI	2	0.087
S.C. AEROSTAR S.A.BACAU	2	0.319

FARMACEUTICA REMEDIA SA	2	0.799
SC RAFO SA ONEȘTI	2	0.369
SIF MUNTENIA S.A	2	0.071
AGRANA ROMANIA SA BUCUREȘTI	2	0.806
SC ZETIVA SA	3	0.144
SC ZAREA SA BUCUREȘTI	3	0.412
CARBOCHIM SA	3	0.128
PREFAB SA BUCUREȘTI	3	0.134
SC ANTIBIOTICE SA	3	0.294
SC BANCA TRANSILVANIA SA	3	0.001
SC RECO SA	3	0.212
SNTGN TRANSGAZ SA	3	0.318

Source: Financial statements of companies listed on the Bucharest Stock Exchange

After processing the data in the table above, the correlation coefficient between revaluation policy and indebtedness is -0.1779 which means that the connection is very weak. Result the first hypothesis does not validated.

2. Revaluation decision is directly correlated with the size of tangible assets

. The correlation coefficient between revaluation policy and size of tangible assets is 0.1206, that link is very weak. Result the second hypothesis does not validated

3. Revaluation decision is influenced in a direct relationship to the size of the economic entity

Company size is reflected in the equity of each economic entity, as shown in Table below.

Table no.3 The information needed to calculate the correlation between assessment policy and company size

Company name	Evaluation policy	Equity size
SIF BANAT CRIȘANA SA	1	538546764
S.C. ALRO S.A.	1	1459251500
S.C. TURBOMECANICA S.A.	1	86931908
S.C. STIROM S.A.	1	239307513
S.C. PRODPLAST S.A.	1	44642546
IND.ELECTROCONTACT S.A.	1	13006308
ELECTROPUTERE S.A.	1	117141948
SC BIOFARM SA	1	145761000
SC SIF TRANSILVANIA SA	1	2352210782
SC CERAMICA SA IASI	1	108885740
OLTCHIM SA	1	-548546339
SC IMPACT CONTRACTOR SA	1	322240562
SC FLAROS SA	1	10553999
BERMAS SA SUCEAVA	1	21674004
VES SA	1	23587150
SC PICON SA	1	6465976
SC MOBEST SA	1	9103882
SC ELECTROCARBON SA	1	111005714
SC STELA SA	1	4878111
SC UNIVERS S.A	1	9812357
SC AZOMURES SA	1	-59175443
JATEX SA BOTOSANI	1	5068357
S.C. GALGROS SA GALATI	1	22437317

UPET SA TARGOVISTE	1	120554007
CONCEFA SA SIBIU	1	106937898
OMV PETROM S.A.	1	18459000
SC GRANITUL SA BUCURESTI	2	7771226
S.C. AEROSTAR S.A.BACAU	2	78877353
FARMACEUTICA REMEDIA SA	2	27260497
SC RAFO SA ONEȘTI	2	406112102
SIF MUNTENIA S.A	2	1234428869
AGRANA ROMANIA SA BUCURESTI	2	68546747
SC ZETIVA SA	3	339350534
SC ZAREA SA BUCURESTI	3	85804296
CARBOCHIM SA	3	6448621
PREFAB SA BUCURESTI	3	214314538
SC ANTIBIOTICE SA	3	266047939
SC BANCA TRANSILVANIA SA	3	2072046
SC RECO SA	3	8007501
SNTGN TRANSGAZ SA	3	2617678587

Source: Financial statements of companies listed on the Bucharest Stock Exchange

The correlation coefficient between revaluation policy and equity is 0.1572. Result the third hypothesis does not validated

CONCLUSION .

In the study presented above, we examined the influence of three factors on policy assessment of 40 entities listed on the Bucharest Stock Exchange . We calculated values of the correlation coefficient between the dependent variable (policy reassessment) and independent variables and we concluded :

- indebtedness of the entity does not influence revaluation policy;
 - asset size has no impact on the decision evaluation
 - size of the entity does not cause management to reassess the assets.
- limit of this empirical study is small number of factors that influence the revaluation of tangible assets and the period of observation , during a single financial year .

REFERENCES

1. Brown, P., Asset Revaluations and Managerial Incentives, Abacus,2000
H.Y.Izan,
2. Matis D., From historical cost to fair value”, Editura Sincron, Cluj
R.Mustață., Napoca,2004
3. Feleagă N.,Feleagă L., Insuficiențele, inconvenientele și pericolele presupuse de apelul la modelul de evaluare în valoare justă” , The journal of the Faculty of Economics, Oradea, 2006
4. Gușe R.G. Valoare, preț, cost și evaluare în contabilitate”, CECCAR, București, 2011
5. Missonier Piera, F, Motives for Fixed Asset Revaluation :An Empirical Analysis With Swiss Data , Ed. Dunod, Paris, 2004
6. Tournier, J.C. La révolution comptable. Du cout historique a la juste valeur, Édition d’Organisation, Paris, 2000