THE TRANSITION TO IFRS – ACCOUNTING DIFFICULTIES CONCERNING THE AMORTIZATION OF THE NON CURRENT ASSETS

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Abstract: In Romania, starting with the requirements of the Regulation (CE) no. 1606/2002 and of the national regulations, it is compulsory for the IFRS to be applied, since 1-st of January 2007, by the entities whose movable possessions, at the date of the balance sheet, are admitted for the transaction on a regularized marked, with the purpose of laying down consolidated financial statements.

Keywords: IAS – IFRS, amortization, non current assets

Emphasizing the globalization of the national economy and the integration of the financial markets and informational systems requires more and more the use of a common language. Therefore, attracting the international finance capital must be based on a relevant informational offer, intelligible and especially comparable, elaborated in a general accepted accounting language.

The investors and financial analysts must understand the financial statements of the foreign companies whose stock holdings would like to buy; they want to compare the financial statements of some companies from different countries and to reassure that the respective information is relevant and sure.

Part of the national accounting system, the financial communication is performed according to the precautions of the accounting Regulations according to the European directives. Thus, for the economic agents, there has been transposed in national legislation the Directive IV and the Directive VII, having as a result the Accounting Regulations in concordance with the European directives. Moreover, in the other institutions with attributions of the regularization such as NRB (National Romanian Bank), The commission of Supervising the Assurances and the National Commission of the Movable Possessions, there were elaborated regulations according to the European directives specific for the activity domains of the entities regularized and supervised by those.

The accounting law from Romania foreseen the application of the accounting regulations that are concordant with the European directives and, respectively, with the International Financial Reporting Standards (IFRS). The states members of the European Union started the implementation of IFRS according to the precautions of the regulation (CE) no. 1606/2002 of the European Parliament and of the Council from 19-th of Julie 2002, concerning the application of the international accounting standards. Consequently, according to this regulation, the member countries apply IFRS in consolidated financial statements.
In Romania, starting with the Regulation requirements (CE) no. 1606/2002 and with other national regulations, the entities, whose movable possessions, at the date of the balance sheet, are admitted for the transaction on a regularized marked, with the purpose of laying down consolidated financial statements, have been forced to apply IFRS since 1-st of January 2007. All the other entities of public interest may apply IFRS when laying down the individual or consolidated financial situations for personal informational needs. In the category of the public entities, according to the norms in force, there are included:

a. credit institutions;
b. assurance, assurance-reassurance and reassurance societies;
c. societies of financial investment societies, societies of investment administration and organisms of collective investment, authorized/counselee by CNVM;
d. commercial societies whose movable possessions are admitted at the transaction on a regularized market;
e. national companies and societies;
f. juridical persons that pertain to a group of societies and enter the are of consolidation by the mother-society that applies IFRS;
g. juridical persons, others than the above mentioned, that beneficiate of non repayable loaning or of the state guarantee.

In addition to that, it has to be specified one aspect that we consider especially important and refers to the fact that in the relations of the commercial societies with the state institutions, the report base will be represented by the accounting regularizations in concordance to the European directives, including the collection of that information that is the bases of determining the due and taxes. Consequently, the financial situations resulted by applying IFRS are destined for the information users, others than the state institutions.

Furthermore, it must be considered the fact that the entities that have the right to apply and opted for IFRS must assure the continuity of their application.

The difference between the legislation that regularizes the problems that concern the amortization and certain precautions of IAS/IFRS are, under many aspects, essential only if we refer to the aspects concerning the amortization, the choice of the amortization methods, revision of the amortization duration and methods. What makes the huge difference between the present Romanian legislation concerning the amortization and the recommendations included in the international norms, to which we have referred previously, regard first of all the exertion, by the experts, of a professional rationalism at a level that, so far, cannot find its equivalent but in a very small measure in the national norms. In our opinion, this is a very important aspect with numberless implications over the quality of the information supplied by the accounting department.

Under these circumstances, we consider it necessary to specify some aspects that, in our opinion, are very important and must be taken into account as work hypothesis when talking about the amortization problem, considering the transition from the accounting processing specific to the national norms to those in concordance with IAS/IFRS.

According to IAS 16 and respectively IAS 38, after the initial recognition of the tangible or intangible assets, it will be evaluated to its diminished price with any cumulated amortization and any loss derived from accumulated depreciation.
The international norms define the amortization as the systematic allocation of amortizable possessions of assets, during its entire useful duration of life.

The entire useful duration of life is defined by means of:

a. the period in which the assets are foreseen to be available for being used by an entity (expressed in years); or

b. the number of products unities or of some similar unities that are expected to be obtained by the enterprise by the use of the respective assets.

The spirit of the international norms is different from what the national legislation imposes with regard to the amortization matter. Thus, in the opinion of the international referential, the entity is the one that decides the amortization method and estimate the useful duration of life. In other words, in this context, the professional rationalism becomes very important due to the fact that the specialists must appeal to it not only at the beginning of the assets’ “life”, but also subsequently, when it may become necessary the revision of the duration of life and the use of the amortization method.

The amortization of an non current assets must initiate in the moment it is available to being used, that is, when it find itself in the emplacement and the necessary condition for being used and must continue till its revision of duration of life or till the use of other amortization method.

Each part of a tangible assets element with a cost significantly bound to the total cost of the taken assets in general, will be amortized separately. On the other hand, one entity may choose to amortize separately parts of an element even if this has no significant cost compared to the total cost of the element.

IAS 16 settles that the useful duration of life of a tangible assets must be determined according top the assembly of factors, mentioned in what follows:

- the foreseen utilization of the assets, evaluated on bases of the productive capacity and of the estimated production;
- foreseen physical wearing out of the assets, evaluated according to the concrete exploring conditions;
- moral wearing out already existing or that will appear as a result of the modifications on the market;
- legal limits concerning the possibility of the assets use (such as the expiry date of some leasing contracts)

Additionally, IAS 38 specifies that the factors, which must be taken into consideration when determining the duration of the useful life of an intangible assets, refer to:

- stipulated use of the immovability by the entity and that possibility that this immovability were efficiently managed by another leading team;
- typical life cycles of the product for the respective immobility and the public information concerning the estimations and duration of life of some similar immobility that is used in a similar way;
- technical, technological, commercial and other type of wearing out;
- the stability of the domain in which the intangible assets functions and the modifications appeared concerning the market demand of the products and services achieved with the help of the respective assets;
- foreseen actions by the part of the competitors and potential competitors;
the level of the maintenance expenses needed for achieving the future economic benefits expected as a result of the use of the immovability and the desire to reach the expected level;

- the time control over the assets and the legal limits of using the product (such as the expiry date of the afferent leasing contracts);

- the dependence upon the duration of life of other non current assets of the entity.

If in the case of the tangible assets the duration of life may be expressed in the number of years of its utilization or the number of the products or similar unities that are waiting to be achieved out of the utilization of the active, in the case of the intangible assets, the determination upon the duration of life is a little more complex, due to the fact that the entities must evaluate if the duration of life of an intangible assets is determined or not, and if it is, which is it (it is expressed in years or product unities).

Referring to the duration of life of an intangible assets that comes out of the legal or contractual rights or of any other nature, IAS 38 (paragraph 94) specifies that it must not overcome the contractual rights period of the period of any other legal rights, but may be shorter according to the period in which the entity believes that it will use the non current assets. Furthermore, if the contractual or other legal rights are agreed on a length of time that may be renewed, the duration of life of the intangible assets will also include the periods or periods of renewal only in the case there are proves to attest the renewal from the part of the entity without a significant cost.

It may be considered proves that attest the renewal of the contractual rights or of any other type of legal rights without a significant cost:

a. the previous experience that these rights will be renewed;

b. there are relevant signs that all the necessary conditions for achieving the renewal will be fulfilled;

c. the renewal cost is not significant for the entity at the moment of comparing it to the future economic benefits.

IAS 38 specifies the fact that if this renewal cost if significant at the moment of comparing it to the expected future economic benefits, to go back to the entity by means of the renewal; the “renewal” cost actually represent the cost of achieving a new intangible assets.

With regard to the intangible assets with the undetermined duration of life, the standard allocated to this category of assets foresees that they will not be amortized. Moreover, the duration of life of the intangible assets that are not being amortized must by reviewed each period in order to determine if the events and circumstances continues to support the initial evaluation, otherwise the modification in the duration of life from determined to undetermined must be perceived as an estimative modification.

Another aspect specific for the international referential refers to the periodical review of the useful durations of life for tangible or intangible assets (at least at the end of each financial exercise) and in case that the new estimations differ significantly from the previous ones, the expenses with the amortization afferent to the present time and to the future periods must be adjusted. It may be possible that the useful duration of the life of the assets were prolonged by performing some modernizations that would bring an extra performance, or were diminished as a result of the technological progress or of the changes within the market structure. In these cases, similar installations, but utilized by different enterprises, with activity in different fields, may have different
The amortization of the assets ceases, the earliest, the date the assets are classified as detained for sale (or included in a group of cession that is being classified as detained for sale), as well as the date the assets are not being recognized any more.

In addition to that, a specific element for the international accounting norms refers to settling the amortization value. Under these circumstances, a new concept comes up, that is the residual value, defined as the estimated value that an entity may obtain by the cession of the assets, after the deduction of the costs estimated for the cession, in case the assets already had a length of service and the condition foreseen at the end of its utile duration of life.

In practice, most of the time, the residual value is insignificant and it is not taken into consideration when determining the amortization, but whenever the entity intend to replace the assets before the end of the economic duration of life, this value need to be estimated. To be practical, the determination of the residual value is attained by comparison to similar assets, at the end of their duration of life and on the base of the contractual foresees (in case of leasing).

Generally, in the case of the intangible assets with a determined duration of life, the residual value is considered to be zero, excepting the cases in which:

a. there is a commitment of a third party of purchasing the non current assets at the end of its duration of life; or
b. there are assets market for the respective immovability and:
   1. the residual value may be determined by reference to that market;
   2. there is the possibility that such a market exists at the end of the duration of life of the non current assets.

Consequently, the amortizing value is determined by deducting from the cost of the assets (or other value substituted to the cost) of the estimated residual value.

Moreover, it must be also mentioned the fact that the residual value of the assets may increase up to a value equal or higher than the accounting value of the assets. If this happens, the expenses with the amortization of the assets are zero only if until then the residual value did not decreased previously until a value inferior to the accounting value of the assets.

Concerning the methods of amortization, it must be mentioned that the international norms does not settle certain methods, but specify that for the systematic allotment of the amortizing value of the assets, during its utilization, there may be used different methods, referring to the linear method, digressive method or the method of the production unities. The entities must select the method which reflects in the most credible way the foreseen type of input of the future economic benefits included into the assets and to apply it diligently from on period to another, except the case when there appears a modification in the foreseen rhythm of the input of the respective future economic benefits.

The amortization method applied to the assets must be revised at least at each year closing and whenever there is observed a modification in the type of consuming the future economic benefits brought by those assets, the method will be replaces so that it reflects this modification.

Concerning the accounting of the amortization, the international norms stipulate its recognition in the account of interest and loss of the expenses with the amortization, only in case it is not included in the accounting value of the assets.

With regard to the problematic concerning the amortization of non current
assets, the national regularizations differs by a series of elements of international accounting norms. In this context, we may sense a more rigid character of the accounting regularizations corresponding to the European directives, on the one hand, and of the fiscal regularizations, on the other hand, compared to the accounting politics promoted by the accounting international standards concerning the amortization.

In the vision of national regularizations, the amortization represents the value expression that corresponds to the irreversible depreciation of the tangible and intangible assets as a result of their use, of the action of the natural factors and of the moral wearing out. It results that, from this point of view, the amortization covers, on the one hand, an economic aspect, by including the depreciation of the products within the expenses of counter-value exploration and, on the other hand, a financial aspect, by constituting the necessary source of replacing the non current assets that depreciates entirely or the financing of a new immovability.

The entities that apply the accounting regularizations according to the European directives determine the amortization by applying the amortization quotas on the entrance value of the corporal immovability of on the remained actualized value, depending on the case.

Considering that, for the beginning, we have to clarify the concept of entrance value the way it is define by the national norms, adding that the fiscal regularizations regard strictly the entrance value of the fix amortized resorts. That means that, by the entrance value of the fix resorts we understand:
   a. the acquisition cost, by fix resorts achieved with onerous title;
   b. the production cost, by fix resorts built up or produced by the contributors;
   c. the value on the market, by fix resorts got with free title.

For the tangible assets that is used in lots, sets or form a single body, lot or set, at the determination of the amortization it is taken into account the value of the whole body, lot or set. For the components that enter the structure of corporal assets, whose normal duration of use differs from that of the resulted assets, the amortization is determined for each and every component. In this case it may be observed the proximity between the precautions from the national legislation and the international norms.

With regard to the duration of the amortization there must be pointed out a certain distinction between the corporal and intangible assets.

In the case of the intangible assets, the national regularizations settle the following rules:

- the constitutive expenses must be amortized within a period of maximum five years;
- the afferent expenses to the acquisition of patents acts, copyrights, licenses, trade marks or brands or other similar values, as well as the expenses for the development, which, from accounting point of view, represent incorporeal immovability, are recuperated by means of the amortization deduction during the contract or during its utilization, depending on the case. (in this situation,
- it can also be remarked the approaching way specific to the international standards).
- afferent expenses to the acquisitions or production of informatics programs are recuperated by the amortization deduction on a period of 3 years.
Certain particularities present the commercial fund, which, according to the fiscal legislation, is not considered amortizable assets. By all means, the accounting regularizations corresponding to the European directives specifies that, in case the commercial fund is treated as the assets, as a result of an acquisition of assets performed by an entity, actives that belong to a different entity, it must be taken into account the following aspects:

- the commercial fund usually is amortized in a period of maximum five years;
- nevertheless, the entities may amortize the commercial fund systematically in a period longer than five years, with the condition that this period do not overpass the duration of economic utilization of the assets.

With regard to the tangible assets, in our country the normal durations of utilization of the fix resorts are settled centralized by the governmental decision, being periodically revised. According to the normative precaution to which we have previously referred to, “The normal duration of functioning represent the duration of utilization in which it is fiscally recuperated the entrance value of the fix resorts by amortization. Consequently, the normal duration of functioning is smaller than the physical duration of life of the respective fix resort.”

Even if, the new Catalog, concerning the classification and normal durations of functioning of the fix resorts, there are foreseen the interval of time in which the economic agents may choose the duration they consider optimum compared to their economic necessities, we still believe that, in many cases, most of all the minimal limit imposed by the normative act does not coincide with the point of view of the specialists/technicians in production.

In Romania, the enterprises are forced to amortize the corporal and intangible assets according to the precautions of the legislation in force, using one of the regimens of amortization linear, degressive or accelerated.

Moreover, the fiscal legislation imposes greatly even the type of method that need to be applied for one or another category of non current assets.

The amortization regimen for a fix amortizable resort is determined, according to the fiscal law, on bases of the following rules:

a. in case of constructions, it is applied the linear method of amortization;

b. in case of technological equipments, that is of machines and installations, as well as of computers and peripheral equipments of it, the contributor may choose the linear, degressive or accelerated amortization method.

c. in case of any other fix amortizable resort, the contributor may choose between the linear or the degressive amortization method;

d. the patent acts, copyrights, licenses, commercial marks or the brands and other similar values, development expenses, as well as the infomatics programs must be amortized by using the linear regimen (with the specification that the patent acts of invention may be amortized also degressive and accelerated)

To resume, trying to realize a short comparative analysis between the precautions of the two accounting reference systems, the conclusions may be formulated such as they appear in the table below:
<table>
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<tr>
<th>Explanations</th>
<th>International norms</th>
<th>National regularizations</th>
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<tr>
<td>1. Definition of the amortization</td>
<td>The systematic allotting of the amortizable value of the assets during its entire useful duration of life.</td>
<td>The value expression that corresponds to the irrevocable depreciation of the tangible and intangible assets as a result of their use, of the natural factors action and of its moral wearing out.</td>
</tr>
<tr>
<td>2. Professional reasoning</td>
<td>It has an important role in the appliance of the accounting politics.</td>
<td>The national regularizations are rigid enough and do not allow the manifestation of the professional reasoning but in a small measure.</td>
</tr>
<tr>
<td>3. Amortization durations</td>
<td>Are estimated by the economic entities by means of applying the professional reasoning and they are periodically revised.</td>
<td>They are settled in a centralized way by normative acts, without the possibility of being revised.</td>
</tr>
<tr>
<td>4. Amortization value</td>
<td>The cost of the assets diminished with the residual value</td>
<td>Entrance value</td>
</tr>
<tr>
<td>5. Residual value</td>
<td>It is an element estimated by means of applying the professional reasoning and by taking into account the stabilization of the amortization value.</td>
<td>This concept is not used.</td>
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<tr>
<td>6. Amortization method</td>
<td>There are not imposed certain methods; the entity has the possibility to establish what kind of method is going to apply. By means of the professional reasoning, the methods are periodically revised.</td>
<td>There are imposed three amortization methods (linear, degressive and accelerated); in many cases, the entities have no possibility of option for the one or the other method.</td>
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**REFERENCES**