

DELIMITATION AND INTERFERENCES REGARDING THE ACCOUNTING MODELS RELATED TO THE CHANGE OF ASSETS DESTINATION

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Abstract: There are cases when entities initially recognize certain goods as tangible non-current assets or as stocks and, subsequently, depending on the actual exploitation conditions, aiming the intention to sell or the intention to use, on a continuous base, appears the necessity to reclassify them. Within this article, we shall realize a comparative analysis of the specific aspects generated by the problematic of changing the assets destination, by means of which we'll try to illustrate both common elements and those which differentiate the accounting treatments specific to the national and respectively international accounting referenciary.

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Key words: accounting treatments, non-current assets, stocks, national accounting regulations, IAS-IFRS.

1. INTRODUCTION

The accounting system of each country, and implicitly of Romania, is significantly influenced by several legal, fiscal, economic, politic, investment factors that, naturally, particularize it. Thus, from a national accounting system to another there are significant differences, especially in terms of meeting the information request through summary financial-accounting reports.

Last years, national accounting system was marked by several transformations that aimed its reformation. Romania's accession to European Union necessitated the permanent alignment of national legislation, so of the accounting legislation to the European Union. Herewith, one cannot lose sight of the fact that European directives were liable to a reconsideration process, after which, by the adoption, within the European Union, of the referenciary based on the international accounting rules, it was followed, on the one hand, the harmonization of the consolidated financial information, presented by the companies rated, in order to ensure a high degree of transparency and comparability of financial statement and, implicitly, a more efficient functionality of the capital community market, and on the other hand, to offer to the companies that weren't rated the possibility to call, by means of options, accounting policies offered by these standards in the process of financial communication aiming both the unconsolidated accounts and the individual accounts.

Current accounting regulations from our country obviously followed the same direction, fact that makes to find several influences having as source the international accounting referenciary.

There are cases when entities initially recognize certain goods as tangible non-current assets or as stocks and, subsequently, depending on the actual exploitation conditions, aiming the intention to sell or the intention to use, on a continuous base, appears the necessity to reclassify them.

2. OBJECTIVES

Since national rules recently took, by means of accounting regulations corresponding to European directives, more and more elements with the origin in the international accounting referenciary, we propose, through this study, to illustrate, on one hand, the common elements of the two approaches and on the other hand, those aspects that still differentiate the specific treatments of national, respectively international accounting standards.

3. METHODOLOGY

In order to meet the objectives established, we'll use a specific methodology mainly based on a comparative analysis of specific aspects generated by the problematic of changing the assets destination. Methodology proposed we'll allow us, on one hand, to identify both common aspects and the aspects differentiating the two accounting approaches, and on the other hand, to realize a thorough study of the problematic approached.

4. PARTICULARITIES OF ACCOUNTING TREATMENTS SPECIFIC TO THE CHANGE OF ASSETS DESTINATION

If we refer to **the accounting treatments considered in terms of national accounting regulations**, usually, those regarding the sale of tangible assets are based on the registration of income realized, and the management discharge on the illustration of accumulated depreciation, respectively of expenses related to the value that wasn't amortized.

- sale of tangible assets:

Receivables = Proceeds from disposal of assets and capital transactions

- removal of records as a consequence of the sale:

$$\frac{\text{Depreciation of tangible assets}}{\text{Net value of assets disposed of and other capital transactions}} = \text{Tangible assets}$$

Accounting regulations in line with the European directives illustrate more this problematic, meaning that they bring into question the possibility to reclassify the assets in non-current assets and current assets.

The normative framework we refer¹ requires that, when there is a change of the use of a tangible asset, meaning that it is going to be improved in the sale perspective, when taking the decision regarding the change of destination, in accountancy must be realized the asset transfer from the tangible assets category in the inventory category.

¹OMFP no. 3055/2009 for the approval of accounting regulations in line with the European directives, point 153, Official Gazette no.766 bis / 2009.

The decision to move the asset from the non-current assets category and to transfer it to inventory considers the corresponding presentation of assets in annual financial statements. In the spirit of accounting regulations in line with European directives, such classifications can be made when the tangible assets can not be capitalized in the current condition or with minor improvements made in short time. Here, are considered assets classifications that must be made when the buyer condition the non-current assets purchase to the performance of some improvement works, that may last a substantial period of time.

Another situation considered is that when an asset was initially recognized to lands and subsequently it is used for building some houses aimed for the sale. In this case, the accounting regulations request that, depending on the negotiating way of the goods sale contracts representing the object of the construction and of the sale, the land value be included in the value of the asset built or to be distinctly illustrated in the goods category, to the registration value in accountancy.

On the other hand, the same regulations bring into discussion the case of assets in the nature of houses that initially were aimed for the sale and that, subsequently, change their destination, being used by the entity for a long period of time or being rented to third parties. For this time, the transfer must be made at the moment when the destination is changed, at the value of the assets from the registration date into accountancy.

The registration flux specific to the change of assets destination in the context of the national accounting referenciary can be diagrammatically rendered, as it follows:

a. non-current asset acquisition:

$$\begin{array}{rcl} \text{Tangible assets} & = & 404 \\ & & \text{„Suppliers of non-current} \\ & & \text{assets”} \end{array}$$

b. monthly depreciation of non-current assets:

$$\begin{array}{rcl} 6811 & = & \text{Depreciation of tangible assets} \\ \text{„Depreciation of non-current assets”} & & \end{array}$$

c. if the reevaluation of non-current asset takes place, the specific accounting treatments of this operation are applied.

d. the registration of change of asset destination through the accounting of its transfer from non-current assets to inventory:

$$\begin{array}{rcl} \% & = & \text{Tangible assets} - \text{accounting value} \\ \text{Inventories and work in} & & - \text{value that wasn't depreciated} \\ \text{progress} & & \\ \text{Depreciation of tangible} & & - \text{depreciation accumulated at} \\ \text{assets} & & \text{the transfer date} \end{array}$$

e. if the asset was reevaluated, the accounting regulations require that, once with the change of the nature, to be also performed the closure of the provisions account from the revaluation related to it:

$$\begin{array}{rcl} 105 & = & 1065 \\ \text{„Revaluation reserves”} & & \text{„Reserves representing the revaluation} \\ & & \text{reserve surplus ”} \end{array}$$

f. registration of expenses made in order to improve the asset:

Expense accounts	=	%
		Inventories
		Third party accounts

g. illustration, at the end of the management periods, as unfinished work, of assets whose improvement for sale wasn't finished, at the level of the effective expenses collected during the period:

331	=	711
„Work in progress”		„Revenues related to the costs of
- analytic distinct -		inventories”

h. continuation of the unfinished work at the beginning of each month:

711	=	331
„Revenues related to the costs of		„Work in progress”
inventories”		- analytic distinct -

i. reception of improvement works and registration of the asset to the new value:

345	=	%
„Finished products”		711
		„Revenues related to the costs of
		inventories”
		331
		„Work in progress”
		- analytic distinct -

j. sale of asset:

Receivables	=	Income
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In the case of international referentiary, we see certain differences regarding the accounting treatments applied to the non-current assets liable to the transfer operation or to another category of assets.

This time, we start from the premise that the entity must have information allowing to the financial statements users to evaluate the financial effects of the activity interruption and of non-current assets cession (or to the groups of assets), because information regarding these categories of assets helps the analyst to make the distinction between continuous assets and future profitability, based on activities that the management intends to continue.

As a consequence, we can say that, in the context of the topic analyzed, the international accounting referenciary notes two approaches, meaning:

- one approach aiming the non-current assets classified as being held for the sale, to which are applied the treatments specified to IFRS 5 “Non-current assets held for sale and discontinued operations”;

- the second approach bringing into discussion the non-current assets classified as investment property, for which we shall consider the rules imposed by IAS 40 “Investment property”.

This approach induces a series of specific accounting treatments differentiated by those promoted by the national regulations that we try to present in a summary manner, as it follows:

- classification of a non-current asset in the category of assets held for the sale, under the conditions provided by IFRS 5, **doesn't imply their transfer from the category of non-current assets in the inventory category**, by the standard mentioned imposes the obligation to separately present, within the annual financial statements, the respective goods compared to other assets;

- non-current assets classified as being held for the sale must be evaluated to the lowest value from the net accounting value and the real value, diminished with the occasional sale costs;

- for the assets entering in the inclusion sphere of IFRS 5, from the time they were classified in the category of those held for the sale, the depreciation calculation and registration are stopped, without existing, but also the condition to cease the use of that assets;

- the evaluation of the non-current assets that doesn't meet anymore the conditions in order to be classified as held for the sale is realized at the minimum from the accounting value of the asset before its classification as being held for the sale, adjusted with depreciations or revaluations that would have been found if it wouldn't be thus classified and the recoverable value of the asset from the date when it was decided that it won't be ceded anymore;

Example: A company holds to 31.12.N a building it intends to cede. The building is free and the company took actions in order to find a buyer. The company classifies the building, at the balance date, as available for the sale. The entry value of the building is of 300.000 lei, the accumulated depreciation of 60.000 lei. At the balance date, it is set a real value of the building of 360.000 lei. Estimated costs for the sale organization are of 24.000 lei.

Net accounting value = Entry value – Accumulated depreciation = 300.000 – 60.000 = 240.000 lei.

Real value – costs of the sale = 360.000 – 24.000 = 336.000 lei.

Minimum (accounting value; real value – cost of the sale) = minimum (240.000; 336.000) = 240.000 lei.

The building will be presented in the balance as an asset available for the sale, being evaluated to the accounting value of 240.000 lei.

The classification of the asset as available for the sale, in the spirit of IFRS 5 doesn't supposes the transfer to inventories, but the continuous reflection in the same category, with the condition to separately present the distinct assets aimed for the cession:

	%	=		
	212		212	300.000
„Buildings /assets available for the sale”			„Buildings”	240.000
	2812			60.000
„Depreciation of buildings”				

Besides, in terms of the information publication, IFRS 5 requires that during the period when a non-current asset (or a group of asset) was classified as held for the sale, to present the following information in the notes to the financial statements:

- description of the asset (or of the group of assets);
- description of the facts and circumstances of the sale or that lead to the sale expected an expected for that sale;
- he lost, the gain or the depreciation recognized an, if aren't separately presented in the profit and loss account, the chapter including the lost or the gain in cause;
- the segment in which is presented the non-current asset or the group of assets (according to IAS 14);
- during the period of the decision to amend the sale plan of the asset (or of the group of assets), a description of the facts and circumstances that lead to that decision and the effect of the decision on the results of the activity for the period in cause and for the previous periods presented.

Analyzed in the context of IAS 4, the topic researched brings in discussion the problematic of the transfers from the category of inventories in the category of the real estate.

IAS 40 makes a distinction between the real property (lands and buildings) held by the entity in order to be used in the manufacture of in supply of goods or services or in administrative purposes, that it names real estate, for which are applied the rules IAS 16 "Property, plant and equipment", those acquired with to purpose to subsequently re-sell them and recognized as goods, for which are applied the accounting treatments specified to IAS 2 "Inventories" and those held with the purpose to rent them or with the intention to raise their value of the market, that it names estate investments, for which are applied the treatments specific to this standard.

It's possible that certain assets that initially were recognized as inventories be subsequently classified as estate investments, as a consequence of the change of their destination. When they are reclassified, the initial accounting value must be the real value from the date of the transfer.

For transfers from inventories to estate investments that are registered to the real value IAS 40 requires that any difference between the real value from that date and the previous accounting value be recognized in the profit and loss account.

Example (the transfer of an inventory to investment property): A company has as object of activity the buildings purchase and sale. On 01.11.N it was decided that one of the buildings purchased for the sale be rented to third parties. Are knew the following information regarding the building: purchasing cost 200.000 lei, real value to 01.11N 210.000, real value to 31.12.N 212.000 lei and the real value to 31.12.N+1 205.000 lei.

- The recognition of the building as estate investment to 01.11.N:

Investment property	=	%	
		371	<u>210.000</u>
		„Goods”	200.000
		Income from investment property	10.000

- The recognition of the real value variation to 31.12.N:

Investment property	=	Income from investment property	2.000
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- The recognition of the real value variation to 31.12.N+1:
 Expenses from investment property = Investment property 7.000
 investment property

By appeal to the regulations in line with European directives, the transfer presented in the previous example would have been realized from inventories to tangible assets and not to estate investments, because national rules doesn't recognize the concept of estate investments from the accounting point of view, elaborating the accounting formula:

212	=	371	200.000
„Buildings”		„Goods”	

If the national rules allow the transfers from non-current assets to inventories, for the subsequent sale, IAS 40 doesn't bring in discussion the problematic of transfers from estate investments to inventories. As a consequence, when the entity decides that the building held as estate investment will be ceded, it must be illustrated as estate investment until the sale and it doesn't be recognized or transferred to inventories.

5. CONCLUSIONS

By the ideas expressed within this article, I intended to make a comparative analysis of basic principles governing the problematic related to the change of assets destination, putting in balance, on one hand, the rules stated by the national accounting regulations in force and, on the other hand, the accounting treatments specific to International Financial Reporting Standards (IFRS).

The analysis made illustrated the fact that the Romanian accounting system was lately submitted to multiple interventions aiming the harmonization of national legislation with the European legislation and, indirectly, with the international legislation.

Following the reconsideration process of the European directives in the accountancy field, in terms of the implementation of some accounting treatments taken from IFRS in line with the provisions of the Regulation (CE) no. 1606/2002 of European Parliament and of the Council from 19th of July 2002 on the implementation of International accounting standards, the national regulations also suffered several changes by which it was aimed to align the national legislation in the field to the European directives.

In the context of these legislative mutations, we can conclude the fact that, in respect to the own philosophy of accounting treatments generated by the change of assets destination, in general are identified particular elements of the national normative framework, that continues to be differentiated by the treatments specific to the international accounting rules.

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