RISK MANAGEMENT FOR IMPAIRMENT OF TANGIBLE ECONOMIC ENTITY

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1. Introduction

Activity of any business is based on consumption of production factors, factors that are found in various forms: technological, informational, human, financial capital, etc.. In an economy rapidly moving element that differentiates these companies is how each company fails to manage its inputs available, how they respond to market demands. The speed with which things evolve in today's economy, pushing the company to rapidly adjust to the environment, putting this one to even more risks. Managerial decision is taken, the current economic conditions, rapidly based on concrete facts and information, accurate permitted without the luxury of slipping even a small error. Economic theory suggests indeed that the market is willing to open space for every business, but does not specify the way in which it must act to preserve their place on the market.

Duration of each of these eager not stated anywhere. We can conclude, therefore, that the idea of economic theory has an open end, an end that can adapt conditions regardless of the economic environment in which we relate: past-present-future. Risks they are exposed to these entities are numerous. They either start from the internal environment: poor handling equipment, lack of training of employees, the environment harmful by type of activity or the external environment: natural disasters, power surges for electrical, atmospheric phenomena, etc..

In addition to the many problems that offered by the operating company, a manager must take into account the risks offered by the entity's internal and external environment that leads. Regarding the risks of depreciation of tangible assets, we can say that their management can be done safely by using the many products and services offered by insurance companies in the country.

Had to relate to losses that could occur due to these negative phenomena, we realize that it is effective call such a product offered by insurance market called voluntary insurance policy. You will probably ask, what is needed to proceed to the cheierea of such a policy, if there is the possibility of achieving a provision for risks and impairments. The answer you will get the contents of this paper. All in an effort to find this answer, we generated such research. I realized how important is the ability to master these risks as well, and also can be affected seriously as a company's financial stability to these, even with the provisioning.

2. Theoretical concepts of security provisions and voluntary

Accounting regulations in force in our country defines provisions as "reserves to cover liabilities whose nature is clearly defined and that the balance sheet is likely to be, or is certain that there will be, but are uncertain in terms of value or when they will occur".

Mihai Ristea, Corina Dumitru-Graziella defined in Financial Accounting paper, digital paper posted on the website of the Academy of Economic Studies, provisions as "an economic entity established reserves to cover losses or debts clearly stated in their nature, but the balance sheet date, are probable or certain, but nedetreminate value or date of production".

French financial dictionary, provisions are defined as "a loss due to a foreseeable changes attributable to property derived by an enterprise, the company was formed based on the precautionary principle."

Provisions are established for risks that may occur in the operating activities of the company, ie they do not cover future operating risks, but risks having as its source certain past events, such as fines, cover litigation, claims, damages and other doubtful debts, pensions and similar obligations, decommissioning of tangible assets due to past events, pay bonuses to employees of profits, other reserves.

Conditions for the establishment of a provision clearly defined accounting law in our country.

These are the following conditions:

• an entity has a present obligation generated by a previous event;

• it is probable that an outflow of resources will be required to meet the obligation;

• a reliable estimate can be made of the amount of the obligation.

If one of these conditions is not met by a provision can not be recognized in the accounts.

From our point of view the establishment of provisions in an enterprise are a form of address book, but not a viable solution to the economic entity.

To the risk of events generated previously in tackling brunt will be without but maybe the company.

Say they are only carrying solution based on the specified Me accounting law, that they can not be charged, so clearly this loss be covered somewhere. From a fiscal standpoint course they bring economic benefits to the entity.

A modern risk management solution offered by the insurance market in Romania is optional insurance of tangible assets within an economic entity. Unlike these provisions cover risks arising from future events company, rather predictable risks due to past events not included in such insurance.

A clearer definition of optional insurance, could be in our view, "the obligations arising from the conclusion of a contract based on the assumption of liability coverage depreciation of property by one party called insurer, for a sum of money called the insurance premium paid by the policyholder or insured property owner, having as starting point the fulfillment of conditions for the smooth running of the contract period".

Sum insured is the amount resulting from the application of the coefficient of wear on the input value of the goods in the economic entity, being the maximum value of goods for which the insurance company is liable to the insured.

The premium is the amount of money that a policyholder agrees to pay in exchange for assets it holds. It is determined by multiplying the sum assured with premium coefficient.

First factor is the numerical value resulting from the application of the basic rate of additional factors, drawn from its own methodology of each insurance company, insurance clauses-specific coefficients specified by the insured.

Risk is defined as the determining factor in concluding an insurance policy, being uncertain future event that would bring together product losses of certain goods.

3. Methodology and research objectives

What happens if a production line is irreparable damage? How to solve this defect if the company has no financial possibility to replace? Who will be responsible for the failure if it comes from the outside? How can the problem be solved without affecting financial entity? These are just a few questions regarding the risks of a production process that I wanted to find my answer.

Relying on knowledge of accounting and analyzing specialized materials on this field, I know the risks and impairments in an entity covered by provisions. Things seemed to unravel until you read our country accounting law, Law 81/1991 updated by G.E.O 37/2011, and saw what actually referred to these provisions.

Basically risks not covered by these provisions far, the weight falling on the shoulders of course economic society. In other words, the above questions have began to revive in my conscience, but solving them having any remedy. I called the insurance market in Romania, and though conscious that in order to benefit from the products of this company will have to take out some money, thus finding the answer to all questions inside of me.

Attention was greater when I learned that can provide almost any risk, for, of course, a fee called premium. I quickly adresta another question on this product, namely its payment: How much? What is included? How to pay? There are facilities to pay product? To find the answer to these questions we turned to an insurance company, listed on the market as serious, asking them more details.

Documents required are: balance sheet, income statement, followed by a request for voluntary insurance of property. This application is described in detail based on supporting documents provided general characteristics of objects, where are seen individually, and the entire assembly when it comes to a production line.

Year of acquisition and commissioning are very important elements for determining the sum insured and the characteristics of the environment in which they are assembled.

Compliance with the installation and use are elements decisivie to încheieirea of such a policy. With Simba Insurance software, we introduced provided input objects, and of course the company that owns them, getting insurance soon offer these machines.

Through this program I was able to change my options on property insurance, each insurance the hydraulic situation in hand. I also requested and methodology for calculating those output values generated by the program, in an effort to analyze how each clause is reflected on the final result.

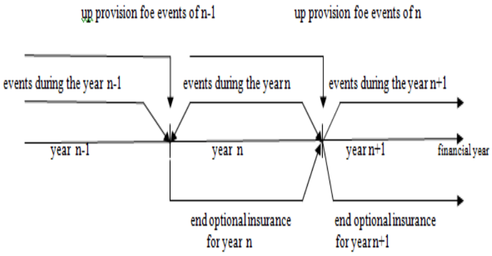
The result was positive, the insurance premium is incomparable level of comfort of the end of such a policy. For the idea to be well defined and have strengthened this work through an example of tangible optional insurance belonging to a production line from a newly established bakery.

The paper concludes with a comparison of the advantages and disadvantages of provisions and optional insurance policy, and of course the conclusions drawn by me in this study were also found at the end of the paper.

4. Case Study on provisioning and optional insurance of tangible assets to the insurance company Groupama

Starting from the establishment of the two forms of risk management in an enterprise, and given the conditions of their formation, we made a graph to emphasize further that the provisions of the voluntary insurance.

Fig. no. 1 During provisioning or voluntary insurance



From the above figure it is clear the time period covered by the constitution and to ensure voluntary provision. So be provision in n ricurile caused by events in year n-1, optional insurance is valid one year at most, at its end with the possibility of renewal with the same conditions as in the previous year, if of course not occurred any damage.

Given the characteristics of the two options hedging threatening the business, create a table by highlighting, through a parallel comparison of both, advantages and disadvantages of each one.

Advantages provisions:

• tax deductible expense;

• has the effect of reducing income tax;

• not a cash outflow, so does not affect cash flow;

• covers some risks from financing activities of the company.

Optional insurance benefits:

• tax deductible expense;

• reduces the tax reporting;

• ensures all operating risks;

• there is a deferred tax as if the provision, insurance premium expense is constant even if no risk;

• does not depend on the financial strength of the company to the risk, solving the problem is on the shoulders of the insurance company.

It seems that voluntary insurance, although adverse effects on cash flow, which is not insignificant, has many other advantages that make it valuable to the company.

Disadvantages Provisions:

• provide only part of the risk and provided they are predictable;

• there is only a postponement of payment of tax;

• do not cover operating risks;

• covering only certain risks to third parties;

• a possible solution to the risk problem depends on the financial strength of the company;

• is many more controlled in terms of taxation.

Disadvantages optional insurance

• civil covering only certain risks to third parties;

• does not cover fines, litigation or penalties;

• sometimes requires a large amount of time to solve the problem;

• do not cover the risks arising from fault handling asset.

From our point of view, taking into account the characteristics of each of them, allowance is complemented by optional insurance, which in combination is the best solution for the problems within a company.

For the theory of voluntary provision of a tangible economic entities are based, we used an example, namely voluntary insurance of production lines belonging to a bakery, taking as the methodology for calculating the insurance company Groupama.

The company is newly established and its main manufacturing activity loaves into four possible types. Work program of the company is carried on two shifts, each shift with a production of 1,600 loaves.

Equipment planned for the activity is new, with a duration of only two months, the duration is approximately equivalent to the duration of their operation. Country of origin of these machines is Italy, each machine has a three year warranty from date of purchase.

Machine name and value of each are given below:

Tabel 1 Tangible data submitted for insurance

nr crt	Equipment name	New value	wear coefficient	sum insured	the coefficient
1	Sift the flour	12.327	1	12.327	2,8
2	masticator	26.656	1	26.656	3,4
3	mass separator hydraulic	24.831	1	24.831	3,2
4	vein trainer	21.316	1	21.316	3,6
5	fermenting	19.313	1	19.313	3,8
6	eletric oven baking	81.769	1	81.769	4,5
7	burner propane / gas	4.228	1	4.228	1,8
8	steel trolleys	6.230	1	6.230	1,5
9	panacoade	12.549	1	12.549	1,8

The newly acquired equipment is observed to have a wear coefficient equal to 1, ie their new value is not influenced by the period of use in this way is equal to the sum insured equipment.

Sum insured is the maximum value for each item separately recognized by the insurance company for which it is responsible.

The last column of the table we have given the methodology of calculation of optional insurance from the insurance company chosen coefficient that is going to calculate the insurance premium on each machine, called by us the basic rate.

This coefficient is increased or decreased depending on the contract terms desired by each insured separately.

Cover additional risks to the base entail increasing this ratio. In addition to providing premium facilities, namely the possibility of payment in installments thereof, attracts also increase the basic rate. These factors add to the basic rate of additional factors are called and are taken from the methodology of calculation of each insurance company individually.

In addition to basic risks: fire, explosion, lightning, electrical phenomena, natural disasters, floods of water from the pipeline, falling objects, hitting other objects belonging to the external environment, earthquake, landslide, our insured policyholder wants end insurance and certain clauses such as inclusion under the policy risks of theft and vandalism, also wants police to end without a franchise and to make quarterly premium.

Vandalism is actually a good damage caused as sources of origin unknown authors.

Franchise is part of the damage which the insured shall bear to the risk insured.

Tabel 2 Additional coefficients for each additional risk of optional insurance policy

Coefficient of theft	ratio of vandalism	coefficient on installment payment	coefficient on option without deductible	coefficient of the first final	insurance premium	Total insurance premium
1,2	1,05	1,1	1,15	4,4629	550,1218	13.285,96
1,6	1,05	1,1	1,15	7,2257	1926,041	
1,1	1,05	1,1	1,15	4,6754	1160,959	
1,2	1,05	1,1	1,15	5,7380	1223,092	
1,7	1,05	1,1	1,15	8,5805	1657,151	
1,2	1,1	1,1	1,15	7,5141	6144,186	
1,3	1,05	1,1	1,1	2,9730	125,6823	
1,3	1,05	1,1	1,1	2,4775	154,3467	
1,2	1,05	1,1	1,1	2,7443	344,3797	

Basic coefficient multiplying these coefficients obtain additional factor called the coefficient column five insurance premium.

This coefficient multiplied by the sum insured gives premium. Insurance premium amounting to each machine individually determined the final premium 13,285.96 in our case.

This premium can be reduced to the request by the insurance company by the Central Insurance.

If we were to refer to the final sum insured 209,217, the premium is not high, which is 6.35% of the sum insured.

To note is that the conclusion of a voluntary insurance policies will not take place until Insurance charge will not perform risk inspection, inspection will be detailed inspection detail on a statement of risk, which adds photographs taken at site.

Insurance objects larger than a year of wear coefficient will correct with that C, whose value we take as risk inspection from a catalog.

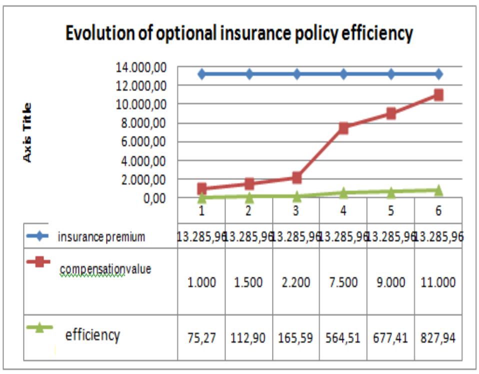
If depreciation provided for in the accounts is appreciated Insurance as correct then the remaining amount will be amortized equal to the sum assured. If there is a possibility to the risk to be affected properties in the immediate vicinity when the insured can opt for a rider called third-party liability, this option clause with the same effect as the other clauses suplimetare.

Discussions optional insurance is not the best way of managing risk on depreciation of tangible assets of a company, without prejudice year I discussed the fact that voluntary insurance and also enables us to cover stocks held by the insured.

What is remarkable paradoxically this product is that it becomes effective as the amount of damage caused by the higher likelihood. Unwanted phenomenon makes insurance premium expense efficient expense.

This is illustrated in the following chart, the data used are hypothetical data:

Fig. 2. Evolution concluding an insurance policy efficiency



Relationship based computing efficiency which was calculated as follows:

$$efficiency = \frac{compensation\ value}{insurance\ premium} x1000$$

This report we have multiplied by 1000, because the value was much lower efficiency compared to values other elements taken into account and also to be able to plot the evolution of concluding a voluntary insurance policy.

This does not mean that the conclusion of an insurance policy without having the effect of damage production is inefficient expenditure. Safety condition that each manager feels after such a policy can not be quantified and depicted as a graph.

The paper ends with some conclusions about the two types of hedging relationships within an economic entity, namely: provision and optional insurance.

5. Conclusions

Push uncertain economic environment entity existence in each moment new challenges, challenges which often require financial efforts to be resolved.

How each company manages to overcome obstacles to internal or external environment in which it operates, depends primarily on who is on board.

Management of the company in the best conditions depends primarily on the quality manager or management team, good training them and the ability to make the best decisions in critical situations entity to successfully push.

Both internal environment and external environment of the company offering its ability to manage the risks as effectively as problem occurred during the activity or event already happened, and are expected some negative consequences.

We have seen that both the provisioning, but also by more modern methods, namely voluntary insurance a company can prepare before unwanted events.

During this research aspect, which took into account the proper risk management of tangible, I could detach umătoarele important conclusions, namely:

• provisions are purely accounting measures aimed at covering losses resulting from the occurrence of a risk belonging to a past event;

• provision, although bring some economic benefits by saving tax entity, which are considered tax deductible expenses, does not measure the optimal risk management of an enterprise, being the brunt of all the "shoulders" it;

• provision does not cover risks from operating activities to be held in the future, it only covers certain risks from the past;

• optional insurance is a modern risk management, she came to the aid of economic entities in that it covers almost all operating risks that may occur in an enterprise;

• optional insurance companies can adapt any adjustable single financial strength;

• optional insurance requires an outflow of cash though, it means the highest degree of safety against risks;

• unlike the provision, voluntary provision has direct effect on its cash flow, reducing it by the amount of the insurance premium;

• provision unlike that does nothing but defer paying income tax when the risk to ensure there has been constituted voluntary insurance expense is irreversible;

• optional ensure efficiency increases as damage arising from the risk is higher.

The most important point of this paper is that provisions for risks and impairment is supplemented by the optional insurance. Existence both inside the company does nothing but cover a wider range of risks, thereby increasing the company being protected from internal and external environmental uncertainties.

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