BASIC AND ALTERNATIVE RULES IN EVALUATION OF TANGIBLE AND INTANGIBLE ASSETS

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ABSTRACT: *The purpose of this report is to bring to the forefront the basic and alternative national rules in evaluation of tangible and intangible assets approved by the Order of the Ministry of Public Finance no. 3055/2009, compared with the International Standards of Accounting matters and positioning of this accounting treatment in the context of the International Regulations. It also is reviewing fiscal influence of these valuation rules.*

KEY WORDS: *assets; asset identification; evaluation; revaluation; fair value*

JEL CLASSIFICATION: *M41*

1. INTRODUCTION

Any recording made in the accounts is seen by the light of monetary phrase, it expressed value. It express the value of purchases, the cost of production, sales of goods or services, operations of receipts and payments, whether they are carried out the elements monetary or non. All these operations, expressed in money, are covered by the process of evaluation.

I considered necessary to go through evolution of the national regulations on the matter, showing the most recent contributions made by OMFP 3055/2009 and the comparative presentation of this order with the international standards of accounting regards tangible and intangible assets.

This report presents in the first part the theoretic aspect of the rules of evaluation and then will be shown separate the basic evaluation rules for intangible assets and separate the basic evaluation rules for tangible assets. Further will be shown the alternative evaluation rules, speaking here about revaluation, and then to be achieved the fiscal aspect of the reevaluation of tangible assets.

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2. EVALUATION RULES

The assets shown in the accounts of an enterprise are evaluated, usually on the basis of cost of acquisition or production cost. Using the cost of acquisition or production is governed by the Order of the Ministry of Public Finance no.3055/2009. In what follows will be presented the basic rules of evaluation and the rules for alternative evaluation of tangible assets. The tangible assets include those assets who are intended to be use on continuous basis for a period exceeding one year, for the purposes of the entity.

2.1. The basic evaluation rules

The Order of the Ministry of Public Finance no.3055/2009 and previous regulations provide basic evaluation rules in four moments: at the moment of entry into patrimony; at the moment of inventory; at the end of fiscal year; at the moment of exiting the property. As regards the evaluation at the moment of entry into patrimony, the new rules do not make news, in that evaluation occurs at cost of acquisition, cost of production, fair value or worth consideration. It should be noted that it is now specified that fair value is determined through an effective evaluation, usually by professional assessment.

The purpose of financial statements, the elements of assets, liabilities and equity shall compile and evaluate at the carrying value agreed with the results of the inventory; the carrying value is the value at which assets are recognized after adjustments for depreciation deduction or loss of value and accumulated amortization for the amortizable assets. Adjustments for depreciation are established including unchanged stocks. The net realizable value of inventories is the estimated selling price that could be obtained in the ordinary course of business, less estimated costs to completion or sale of the property.

The asset value is determined by the usefulness of the asset, its condition and market price. The correction of the value of tangible and intangible assets is made according to the type of existing depreciation, either by recording additional depreciation, where an irreversible depreciation, either by creating adjustments for depreciation in case of reversible depreciation. It was introduced a requirement to develop their own procedures regarding inventory, with legal provisions. At the moment of exiting the property, the tangible and intangible assets, are evaluated at the value registered in accounting, recording as revenues any adjustments for depreciation or losses related.

2.2. Basic evaluation rules for intangible assets

The intangible assets who are intended to be use on a continuing basis for a period exceeding one year, the purpose of the entity (The Order of the Ministry of Public Finance no.3055/2009 published in Official Gazette no.766 bis of November 10, 2009, art. 65). The presentation of elements belonging to tangible and intangible assets is made in the explanatory note no.1, attached to the financial statements. In this explanatory note are presented the tangible assets at the original cost of acquisition or production cost, the increases and decreases recorded in the financial year, the final balance of the period, on the one hand, and on the other hand, the adjustments of the reversible or irreversible value associated with these assets (depreciation and amortization).

Defining the tangible assets in the light of the national regulation, OMFP 3055/2009 and the international regulation, IAS 38 "Intangible Assets" is presented in table 1.

Table 1. Comparative definitions of intangible assets

	OMFP 3055/2009	IAS 38 “Intangible Assets”
An intangible asset may be recognize only if:	- it is estimated to generate profits for entity -it’s cost can be assessed in a credible manner	- the asset is controlled by entity as a result of past events; - the entity expects the asset to generate future economic benefits; - the cost of asset can be measured credible; -the asset can be separated from the commercial fund.
Tangible asset	- it is separable - flows from contractual rights or other legal forms	

An intangible asset is an asset which is non-identifiable, non-monetary, non-material support and held for use in the production or supply of goods or services , or to be leased to third parties or for administrative purposes (The Order of the Ministry of Public Finance no.3055/2009 published in Official Gazette no.766 bis of November 10, 2009, art.72).

The concept of “identifiable” makes sense in the Order of the Ministry of Public Finance no.3055/2009. There are defined conditions which must satisfy an intangible asset to be considered identifiable. These are:

- is separable –can be separate by entity, can be removed from the records individually, or
- resulting from contractual rights or other legal rights.

The difference between the two types of regulation is that the international standards specify that recognition of intangible assets may be done "only if", while national regulations defines intangible assets in a broad sense, as though explaining and not imposing certain conditions.

It is clarified the situation of recognition of an asset as a tangible or intangible kind, where intangible assets are incorporated in tangible assets. To properly treat such a property, it must be determined by the entity, which element is more significant. If a tangible asset may not be used without that intangible asset, it will be recognized in the accounts as a tangible asset at the value of tangible asset including the value of intangible asset.

It also covered how to recognize in accounting the intangible assets produced in that entity, obtained in own production. Thus, the research phase and the development phase are defining. The expenditure on research is recognized as expenses in the period in which they are generated, the development costs will be recognized as intangible assets if that qualify for recognition. I mean, if it considers it would generate economic benefits for the entity.

The comparative study of the recognition of expenditure on research and development as intangible assets is presented in the table 2.

Table 2. Research and development expenses

	OMFP 3055/2009	IAS 38 "Intangible assets"
Stage of research	-no intangible asset resulting from research is not recognized. Expenditure on research are recognized as expenses when are generated	-the expenditure is recognized as cost when it is made, since the entity cannot demonstrate that a intangible asset exist and that this will generate future economic benefits.
The development phase	It is recognized as intangible asset originating from development or from the development phase of an internal project **only and only** if it can be demonstrated that: -these fixed assets are completed technical and are available for use or sale -there is the intention to complete this intangible asset for it could be used or sold -there is the ability to use or sell the intangible asset -it is set the way in which will be generated profits by that intangible asset -technical resources, financial and other resources necessary for the completion of intangible assets are sufficient -the expense regarding the intangible asset is credible evaluated	It is recognized as intangible assets originating from development or from the development phase of an internal project **only and only** if it can be demonstrated that: -these fixed assets are completed technical and are available for use or sale -there is the intention to complete this intangible asset for it could be used or sold -there is the ability to use or sell the intangible asset -it is set the way in which will be generated profits by that intangible asset -technical resources, financial and other resources necessary for the completion of intangible assets are sufficient -the expense regarding the intangible asset is credible evaluated

There are mentioned examples of research activities:

- activities in the purpose at obtaining new knowledge
- identifying, evaluating applications through research discoveries

- seeking the alternatives to the stocks, systems or services
- elaboration, evaluation and final selection of the determined alternatives new or improved.

The development expenses are amortized over the life of the contract or over the life of utilization, where appropriate. If the development cost has not been fully amortized, alike organizational cost, can not make a distribution of profit, unless the amount of reserves and profits brought forward is at least equal to the unamortized costs.

Subsequent expenditure incurred by an intangible asset will increase the cost of asset only when it is likely that asset to generate future economic benefits over the predicted performance, otherwise they are treated as expenses in the period.

2.3. Basic evaluation rules for tangible assets

The tangible assets are the assets that are used for more than a year and are held for use in the production of goods or services or to be leased to third parties or used for administrative purposes. The new regulation states that although they are purchased together, land and buildings are accounted separately and if there are changes in the value of one it is not affected the value of other one.

The tangible assets held under a lease contract are accounted based on contractual provisions, taking into account the requirements of the principle of prevalence on the judiciary.

There are mentioned the conditions to be met by a lease to be considered a finance lease. These are:

- the title of the property is transferred to the lessor until at the end of the lease;
- there are at the beginning of the contract the certainty that the lessee purchase option will be exercised;
- the leasing contract covers most of the duration of utility of the asset;
- total leasing less accessory expenses, is greater than or equal to the amount that the sponsor has purchased the asset;
- -the goods that are subject to such leases are special, so only the landlord can use them without major modifications.

It should be noted that is enough for one of these conditions are met and the lease is considered a financial lease contract.

The interest paid on debts from financial leasing, the lessee will record under accrual accounting, by reflecting periodic into expenses accounts. The lessor will recognize in the same conditions, the interest income.

A new, covered by the Order of the Ministry of Public Finance no. 3055/2009, is accounting for the leaseback contract. It requires an asset sale and acquisition of the same asset leased. Accounting for such transactions is made according with the contractual terms of the lease.

If the transaction results in a finance lease, then this agreement is a means of financing the lessee by the lessor and asset serves as warranty. In this case, will not be recognized in the accounts of the asset sale transaction, its value being recorded by recognizing the debt on a long term, following the interest and other financing costs are recorded according to finance leases regulations.

In terms of value added tax regime, there are two separate operations, the delivery of the goods made by the lessee and the leasing operation carried out by the lessor, for which the value added tax is recorded by law (The Order of the Ministry of Public Finance no.3055/2009 published in Official Gazette no.766 bis of November 10, 2009, art.102).

If the transaction results in an operating lease, the selling entity should recognize revenue from sales with removal from the register of assets, followed by rental operation in operating leasing.

All information on leasing operations must be submitted by the parts in the leasing contract in the explanatory notes to annual financial statements.

The tangible fixed assets are initially evaluated at the cost determined by the method of entry into the entity. The cost of tangible assets are included in the initial estimated cost to dismantle at the moment of decommissioning and also the site restoration where the asset is placed, whether these amounts can be estimated reliably and the obligations of the entity is established by contract. These costs are recognized in correspondence with an account of provisions.

Subsequent expenditure incurred by a tangible asset, alike the intangible assets, will increase the cost of the asset only when it is probably that asset to generate future economic benefits over the predicted performance and can be measured reliably, otherwise they are treated as expenses in that period.

The cost of repairs to tangible assets incurred to maintain the operating parameters is considered an expense for the period. If the repairs of assets are resulting in increase or improving technical parameters and obtain future economic benefits in addition to those initially set, then these costs should be recognized as a component of the asset.

Fixed assets under acquisition are valued at acquisition cost or production, as appropriate. In the financial statements the tangible assets are presented at the input value less the value of the adjustments (depreciation and adjustments for depreciation).

As regards depreciation of those assets, it is to begin next month after they were put into service until full recovery of their input value. It should be noted that significant changes in the circumstances of use or aging conditions of a property, it may, justifiably, to review depreciation. This new estimate leads to modification of depreciation expense for the remainder period of use.

Allowed depreciation methods are still the familiar - linear depreciation, digressive depreciation and accelerated depreciation. - But it allows depreciation per unit of product or service, when the nature of such asset justifies the use of this kind of depreciation methods. When an entity determines the depreciation method must consider that the depreciation method used should reflect how future economic benefits of an asset are expected to be consumed by the unit.

A tangible asset should be removed from property records on disposal or when no longer expected to achieve economic benefits from exploitation. Where a tangible asset is destroyed, totally or partially, and compensatory amounts to be received from third parties, for these, the depreciation of assets is recorded at the moment of observation, and the right to receive compensation is recorded on the income account, as accrual.

2.4. Alternative Evaluation Rules – Revaluation

In accordance with the Government Decision 1553/2003, the companies, regardless of ownership, autonomous companies and domestic companies, research institutes and other types of businesses could do the revaluation of tangible assets in their property at 31 December 2003 so that revaluation is included in the financial statements of 2003.

When book value began to differ materially from fair value, due primarily to inflation, it was necessary revaluation of tangible assets, taking into account the usefulness of the property, its condition and market price. Existing tangible assets, excluding fully depreciated tangible assets, the preservation of the past, the current tangible assets or identified off-balance sheet, the tangible assets that have emerged from the period January 1, 2004 and the approval of financial statements, have could be evaluated with the inflation index notified by the National Institute of Statistics for December 2003.

Since 2004 there is no regulation of the possibility for the revaluation due to inflation, leaving open the possibility of revaluation of tangible assets.

The Order no. 1752/2005 is the first Romanian regulatory order allowing the rules of alternative valuation of tangible assets in accordance with european directives. The purpose of revaluation is to bring the book value of fixed assets at their fair value or a value as close to the closing date of the financial year. If revaluation takes place for tax purposes, which often met for construction to benefit from lower tax rate, this will be mentioned in the explanatory notes to annual financial statements.

Same legal regulation defines fair value as “the amount for which the asset could be exchanged freely between the parties in informed trading in a price determined objectively” (The Order of the Ministry of Public Finance no.1752/2005 published in Official Gazette no. 1080 bis of November 30, 2005, art. 53 alin.2).

According with the Order of the Ministry of Public Finance no. 3055/2009, at the end of the financial year is allowed a revaluation of existing tangible assets, with registration in the accounts and even presenting the results of the revaluation in financial statements prepared for that year. The depreciation for these assets will be recalculated following the year since the revaluation.

If a fully depreciated tangible asset can be used, it will be revaluated and will be new term economic uses which will meet the anticipated time continue to be used. All this elements, revaluation and the recalculation of the depreciation will be presented in the notes annexed to the financial statements and also their impact on the profit and loss.

Revaluation of tangible assets will be at fair value at the date of the financial statement, value based on evaluation made by professionals skills in evaluation, members of a professional associations, recognized nationally and internationally.

The calculation of accumulated depreciation at the moment of revaluation may be made in one of the following ways: recalculation proportional with the change of the book value of assets, so that, after revaluation, the book value and revalued amount to be equal; to eliminate from the gross carrying amount of depreciation and net worth recognition at revalued amount of tangible asset.

All elements belonging to the same group of tangible assets are revalued simultaneously for reporting annual financial statements will not be a combination of costs and values at different dates. If the fair value of tangible assets can not be determined, the asset value in the financial statements should be determined during the last revaluation less accumulated adjustments of the value.

The difference between the initial value and fair value determined by the revaluation will be recognized in the accounts as a separate item in equity. Transfer to the reserve accounts from revaluation will be made only if the revaluation surplus is considered a realized gain. If the revaluation result is an increase from the net value will be treated as an increase of the reserve from revaluation if there was a decrease previously recognized as an expense related to that asset. Will be treated as income if previously acknowledged an expense with the decrease of the value of that asset.

If the result of revaluation is a decrease of the net book value, this is treated as a reduction of the reserve from revaluation if it exists, otherwise a full amount of depreciation expense or the uncovered part of the revaluation reserve. The reserve from revaluation may be distributed only when the asset was sold, in which case the revaluation surplus is actually realized gain.

Revaluation of tangible assets must be made sufficiently regular for the financial statements as they are set to a value as close to fair value and the explanatory notes should contain information on their historical value and valuation methods used.

2.5. Revaluation of tangible assets seen in fiscal terms

Starting January 1, 2007, the tax code provides that the determination of land's fiscal value and the fiscal value remained undepreciated for the other tangible assets will be considered both revaluations made after 1 January 2007 and the remainder outstanding from revaluations performed during the period January 1, 2004 to December 31, 2006, presented in the financial statements ended December 31, 2006.

There is indicate that excess from the revaluation of tangible assets, which was previously deductible, shall be taxed at the moment of change in the use of the reserve - delivery or loss recovery. The Government Emergency Ordinance 34/2009 introduces an exception to the general rule. I.e., the reserves from revaluation of fixed tangible assets made after January 1, 2004, which are deducted in calculating the gross profit through tax depreciation it will be taxed at the same time with the deduction of the tax depreciation

The Government Decision no. 488/2009 brings further details of this exception to the general rule. Therefore, from January 1, 2009, the differences from revaluation for the revaluations made after 1 January 2004 are taxed at the time of recording depreciation expense of the tangible asset.

3. CONCLUSIONS

Watched compared the evaluation of tangible and intangible assets, having regard to the regulation of basic and the alternative, we notice that OMFP 3055/2009 put very close the national regulation with the international standards of accounting both in terms of definitions and conditions for recognition in the accounts of them.

In terms of basic evaluation rules, the conditions for recognition in the accounts of intangible assets were presented compared above. For the tangible assets, after studying criteria which must meet an asset to be recognized as an intangible asset, notice the difference between the two kinds of regulations, national and international. If national regulations *require* the use during a period more than one year, the international standard specifies that *is possible* to be used during the more than one year period.

The alternative evaluation treatment, covered by national legislation *allows* revaluation of tangible assets at the end of the fiscal year for the presentation in the financial statements the fair value of fixed assets such as the results of reevaluation. The International Standard specifies that subsequently initial recognition, tangible assets *must be* revaluated at fair value at the reevaluation moment reduced by adjustments for depreciation and amortization. Both kinds of regulations stipulate that revaluation must be made with sufficient regularity so as not exist major differences between the amount recorded in the financial statements and their fair value balance at the end of fiscal year.

We can conclude that because of this last national regulation, we adopted legislative changes which put us very much closer to international regulations on the matter and that professional reasoning can be applied in many cases without being limited to strictly follow the line without a specific alternative for intangible assets evaluation and tangible fixed assets.

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