Convergence or Divergence between National and International View on Tangible Assets - Case Study Romania

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Abstract: A controversial subject at the present time is the issue of harmonization of accounting both at European level and globally. Although much has been made in bringing the accounting at a uniform level, this request it has not reached yet. A comparative study between the accounting treatment of fixed assets amounted to Romanian national regulations and in accordance with international rules, will bring out the best in show the similarities and differences between the regulations. The rules used for comparison will be OMFP 3055/2009, International Accounting Standard 16 – Tangible Assets and Generally Accepted Accounting Principles 360.

Keywords: tangible assets; comparability degree; IAS/ IFRS; national rules; Romania

JEL Classification: M40

1. Introduction

One of the main components of the company's patrimony is immobilized in capital goods and values, also called fixed assets, which are meant to provide the entity's activity for a period longer than one year and which, as a rule, is consumed incrementally. Tangible assets are a source controlled by the enterprise that are results of past events and may create future economic benefits.

The objective of this paper is to remove the need for accounting harmonization at European and global level through the removal of the similarities and differences between national rules, IAS and U. S. GAAP.

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Although there are opinions pro and contra the accounting harmonization process, we believe that viable accounting harmonization would help Romania especially during this period of economic crisis by creating transparency and accountability and by attracting new investors.

Harmonization of international accounting is the process by which rules or national rules, different from one country to another, sometimes divergent, are fine-tuned to be made comparable. Until now a quarter of a century, the accountants not only spoke and use different languages but they also gave different interpretations of the same events and transactions. Today, the main word for most accounting professionals from all over the world is the "internationalization". In fact, international accounting was born out of concerns of international harmonization of accounting rules and practices. (Bonsón et al., 2006)

The need for harmonization in accounting involves adapting and rigorously organized activities that can be assimilated to international accounting law, embodied in the goals of "accounting and control" respectively, "the normalization of accounts" (Pântea & Bodea, 2003). Providing public information constitute the expression of transparency in economic activity, its readability for internal and external users, the economic entity's creditworthiness. (Diaconu et al, 2009)

Among the arguments favoring the accounting harmonization at European and international level, we can mention:

Globalization of national economies and financial markets integration – we talk about foreign capital, relevant information for investors, intelligibility and comparability of accounting information's. Also, the need for a universal accounting language and the harmonization pressure comes from users of accounting information. The liberalization of markets requires major efforts for investors and financial analysts to understand the financial and accounting information developed by foreign companies.

The access to international capital markets promotes the harmonization of accounting. Thus, numerous intergovernmental bodies, such as the European Economic Community are concerned for the protection of investors. Other companies want to enter in the international capital markets and the developing of financial statements must be completed in such a way to correspond to the practices of the investors.

For multinational entities which have subsidiaries and branches in another country, the development, consolidation and the audit of financial statements would incur lower costs if accounting is harmonized.

Tax authorities – the complicated procedures regarding the taxation of income/ profits abroad, a result of different methodologies for determining tax bases designed even by those authorities, find an advantage in the process of normalization of accounting (Borlea et al., 2009).

In the process of accounting harmonizing there are some obstacles that block the normalization of the accounting from the national point of view. One of these obstacles is the lack of confidence that International Accounting Standards might respond to all the changes that will occur within a country that applies them. A second major obstacle is the differences in national accounting practices that would lead to major changes in attitudes and legislation.

2. Literature Review

The literature on Romanian accounting harmonization topics claims that has not been reached the level where we can say that there are no longer differences between the accounting regulations at national and international level. We support this statement with a few arguments.

In the opinion of the accounting professionals regarding the possible implementation of IFRS in Romania it was observed that there aren’t a sufficient number of specialists which can be able to implement successfully the IAS/ IFRS to all entities. (Lapteş & Palmer, 2009)

Even if International Accounting Standards have a constant evolution in terms of their application within the companies that operate in the European Union, surely there are differences between national and international regulations of some countries in the European Union, as is the case of Romania. (Turcanu et al., 2008)

Starting from the correlation that exists between the evolution of the economy and society as a whole, the implementation of International Accounting Standards are not automatically relieve the national accounting system, if do not take place profound changes in economic development policies of corporate governance mechanisms and the functioning of the financial market, at the same time (Diaconu et al., 2009). Mustata et al. (2010) say that harmonization is a spontaneous reaction to the need for harmonization of accounting practicing. The need for uniform accounting rules in small and medium enterprises using standards raise a very great interest for all accounting professionals. The aim of the European Bodies is to identify solutions regarding the harmonization of accounting practices in Europe and the quality of accounting information.

The human factor plays a key role in solving the problem of the difficulty of implementing IFRS. This aspect is not specific just to our country, not even for past Communist countries, it is a dilemma that keeps the national profession bodies in a huge pressure. There are some opinions (Albu et al., 2010) who argue that standards for accounting rules and practice will affect accounting education. This learning problem can be solved by one solution, namely the higher education quality and the development of continuous learning professional programs.

It is strongly recommended that the paper should have an even number of pages, but no longer than 4 to 14 pages. In some cases papers with more than 14 pages will be accepted by the editorial board if they contain the report of a wider research activity which can not appear separated in two papers.

3. Methodology and Data

In this paper, the deepening of knowledge approach is made through the retrospective character imposed by normative research done, and also by prospective character, given by empirical research. From social sciences methods used within the framework of this approach, we mention: analysis of documents, the comparative method and the method of observation.

To be able to count the degree of similarities between national rules and international regulations (IAS/ IFRS), we have selected some key terms (21) considered relevant. By analyzing the content and appearance of the values of 0, 0.5 and 1, we will determine the degree of global convergence/ divergence on the item in question. Each of them will receive one point where there are the criteria and it is completely the same with at least one of the other two regulations, 0.5 points where there are common elements with at least one of the other two regulations, but there are changes in relation to the other two. Zero points will receive items which are completely different or even does not exist.

3.1. Selected Items

Definition of tangible assets **-** Tangible asset include, according to the current rules: land and buildings; technical installations and machinery; other installations, equipment and furniture; advances to suppliers of tangible assets and tangible assets in course of construction. (OMFP 3055/2009)

The tangible asset represents assets that are held by an entity for use in the production of goods or supply of services, to be rented to third parties or to be used for administrative purposes; they are used for a period longer than one year amounted to the category: land and buildings; technical installations and machinery; other installations, equipment and furniture; advances to suppliers of tangible assets and tangible assets in course of construction.

Definition of IAS 16 Tangible asset is consistent with the definition of national Romanian rules. There are no exclusions from the scope in terms of tangible asset headings. They are defined under IAS 16 as tangible items that are held to be used for the production or supply of goods or services, to be rented to third parties or to be used for administrative purposes; and it is expected to be used during more than one period. (IAS 16)

The initial evaluation of fixed assets - fixed assets should be valued at its cost determined according to the rules of evaluation of national rules depending on the method of entry into the entity. (OMFP 3055/2009)

Initial recognition of a tangible, according to IAS 16, will be valued at cost. It should be recognized as active if it meets two conditions: it is likely to generate future economic benefits to the entity and the cost of assets can be reliably assessed. If the term of payment is exceeded, then the cost of the asset will be the present value of future payments. These costs will be recorded on the expenditure side.

In the case of U. S. GAAP 360 cost does not include gains or losses on fair value of cash flows resulting from the acquisition of tangible assets in foreign countries; and includes interest that is required to be capitalized at unfinished assets.

Subsequent expenses related to fixed assets - Subsequent Expenses related to tangible fixed assets shall be recognized generally as expenses in the period in which they were made. Subsequent expenditure of the tangible asset headings are capitalized only when it is probable that future economic benefits have increased beyond the previous estimate. Investments in tangible assets are capitalized and amortized leased the leasing period. (CECCAR, 2010)

There are recognized as a component of the assets, in the form of subsequent expenditures, investments made in tangible asset headings. They must have the effect of improving the technical parameters of their initial and leading to obtaining future economic benefits, in addition to those initially estimated. Obtaining benefits can either be done directly through income growth, or indirectly by reducing the cost of maintenance and operation. (OMFP 3055/2009)

As mentioned earlier, the initial assessment of the costs amounted to daily maintenance of tangible assets will not be admitted to the book value of the asset. These costs will be incurred on account of expenditure, and it will be finding in the profit and loss account. If you need to replace a part of assets, the cost of the parts replaced will be recognized in the tangible assets value, only if the criteria for recognition are met (IAS 16). According to U. S. GAAP, costs of maintenance and repairs are considered an expense that must be carried out.

Valuation at the balance sheet date amounted - in terms of valuation at the balance sheet date, the tangible asset headings shall be entered in the balance sheet at the input value reduced by accumulated value adjustments.

Depreciation of tangible assets- the depreciation cost is allocated on continued useful life of tangible assets (no requirement to deduct the residual value).

Depreciation is calculated from the month following the month in which the asset was placed in using (CECCAR, 2010). The entities use one of the following modes of depreciation:

a) Linear depreciation achieved by including a uniform expenses of fixed amounts set according to the number of years of life;

b) Depressive depreciation which consists in multiplying the linear damping rates with a coefficient, according with specific law;

c) Accelerated depreciation, which is included in the first year of operation, the operating costs of a depreciation of 50% of the value of the asset. Annual depreciation for subsequent years is calculated by linear regime, in relation to the number of years of use left.

d) Depreciation calculated per unit of product or service, where the nature justifies the use of such asset depreciation methods. (OMFP 3055/2009)

The amortization method used should reflect how the asset's future economic benefits are expected to be consumed by the entity. Depreciation of fixed assets shall be accounted for as an expense. (OMFP 3055/2009) U. S. GAAP, IAS 16 requires deployment as depreciation for the period of use of the asset, as long as the asset generates economic benefits. Depreciation stopped when the asset is qualified to be selling. As depreciation methods are: linear depreciation, depressive depreciation and depreciation by the amount of years of using period.

For the latest model of depreciation is determined primarily the amount of years by the formula:

1 + 2 + 3 + ... + (N-1) + n (n +1) x (n / 2),

And the annual depreciation is determined according to the following formula: for one (cost of acquisition, the residual value) * n / (n +1) x (n / 2) for year 2 (acquisition cost-residual value) * (n-1) / (n +1) x (n / 2) for year 3 (acquisition cost-residual value) * (n-2) / (n +1) x (n / 2), etc.

Assets exchange **-** In case there are exchanges of assets, this operation causes two different transactions. The first transaction is to remove from the balance of the asset given up, and the second is the recognition of the asset received in the exchange.

Items of property, plant and equipment may be acquired in exchange for non-monetary asset or assets, or by a combination of monetary and non-monetary assets (IAS 16). An exchange transaction has commercial substance if:

1. The configuration (risk, timing and amount) of the cash flows for the asset received is different from the configuration of the cash flows of the asset transferred;

2. The entity-specific value of the part of the entity's operations affected by the transaction is change as a result of the exchange;
3. The difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is clearly evident. (IAS, 16)

Exchange of non-monetary assets is recorded at fair value. However, if the transaction lacks commercial substance or for any reason cannot determine the fair value of assets or an exchange that facilitates the sale between the customers, the exchange is recognized using a deferred asset value. (U. S. GAAP)

Subsequent measurement of property - In addition to the option cost model evaluation, according to which classes of property, plant and equipment are measured at revalued amount less any accumulated amortization and any subsequent accumulated impairment losses. If revaluation increases the value, it is attributed to a “revaluation reserve” unless it represents the reversal of a revaluation losses recognized as an expense for the same asset, in which case registration will generate an income. A decrease in value will generate the recognition of an expense to the extent that exceeds the existing revaluation reserve for the same asset. The revaluation reserve is not distributable. When a revalued asset is assigned to the revaluation reserve is transferred to other reserves. Reassessment is allowed only at the end. (CECCAR, 2010)

Under IAS 16, there are two recognized models for subsequent evaluation of tangible assets: cost model and the re-evaluation model. Cost model - in this model, it is considered that an asset must be passed in accounting at the difference between its cost and accumulated depreciation and/ or accumulated impairment losses. The revaluation model - once a good has been recognized as an asset, specifically fixed asset and its fair value can be measured safely, the item will be passed in accounting at a revalued amount.

Revalue amount will be equal to its fair value determined at the date of revaluation, less any accumulated depreciation and any accumulated impairment losses until reassessment. This regular reassessment are made with regularly, to have certainty that the carrying amount is not much different from the amount that would be determined using fair value at the balance sheet date.

In the case of a tangible asset revaluation, the accumulated depreciation will be restated proportionately with the change in the gross carrying amount of the asset so the carrying amount of the asset is equal to the revalued amount. This method is usually used when an asset is revalued by means of applying an index to determine its depreciated replacement cost.

The increase in the value of an asset, after reassessment, will be recorded in their capitals as “surplus.” This increase should be recorded in the profit and loss count in the level that it is offset by a revaluation decrease of the same asset previously recognized as profit or loss. Also applies to reverse this situation, where appropriate.

Under U. S. GAAP revaluation of property is not permitted, except impairment. Depreciation adjustment recorded earlier is prohibited. Tangible entities should be reassessed to determine the market value of the asset or the current values if they are greater than the cost of the asset recorded by the entity, except in special cases such as major reorganizations.

The transfer and disposal of tangible assets **-** Tangible evidence will be excluded from the evidence at transfer, disposal or when their economic benefits are not expected anymore. When the item is derecognized, the gain or loss arising shall be included in profit or loss. Gains shall not be classified as revenue. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue. (IAS 16) Disposal of property, plant and equipment are subject to the same accounting treatment for U. S. GAAP as in IAS 16. Property management will be removed from the unit in which they will be sold, or when it cannot generate economic benefits.

3.2. Assessment of the Degree of Similarity between the National and International Regulations on Tangible

Based on the above theoretical approaches commensurate with the values given, we can analyze the degree of similarity between national and international regulations on tangible assets.

Table 1. Measuring the Similarity between the National and International Rules

No.	Criteria	National rules	IAS 16	US GAAP 360
1	Definition of tangible assets	1	1	1
2	Principles of recognition of fixed assets	0	1	1
3	The definition of accounting value	1	1	1
4	Definition of cost	1	1	1
5	The definition of depreciation value	0.5	1	1
6	Definition of depreciation	1	1	1
7	Definition of fair value	1	1	1
8	Definition of impairment loss	1	1	1
9	The definition of waste	0	1	1

10	Definition of discontinued operations	0	0.5	0.5
11	Initial evaluation of tangible assets	1	1	0.5
12	Subsequent expenditure on fixed assets	1	1	1
13	Evaluation of tangible assets on the balance sheet	1	1	0.5
14	Depreciation of tangible assets	1	1	1
15	Irreversible depreciation period	0.5	1	1
16	The residual value	0	1	1
17	Irreversible depreciation of intangible components	1	1	0.5
18	Assets exchange	1	1	0.5
19	Assets held for sale	0	1	1
20	Reevaluation	0	0	0
21	The transfer and disposal of tangible assets	1	1	1
TOTAL POINTS		14	19.5	17.5

Source: Author's Projection

4. Results and Discussions

After analyzing the table it can be seen that the highest score is obtained by IAS 16, as it has most in common with Romanian national regulations, respectively with U. S. GAAP 360. Thus IAS 16 is considered to be a landmark in the analysis the similitude of the other two rules. Of the total 21 points, IAS 16 get a percentage of 92.86%, this means that it contains over 90% of the criteria selected for analysis. U. S. GAAP obtain a score with two points lower than IAS 16, which means it has more in common with IAS 16 than Romanian national regulations. Thus U. S. GAAP is similar to IAS 16 with a ratio of 89.74% and holds 83.33% of the selected criteria. Romanian national regulations obtained the lowest score, 14 points from 21, which highlights the fact that significant differences are recorded to IAS 16 first, and then to U. S. GAAP. Romanian National regulations receive a share of 71.8% in the likeness of IAS 16 and 80% similarity with U.S. GAAP. Romanian regulations of holding 66.67% of criteria are selected for analysis, recording the lowest proportion.

5. Conclusions

This paper aims to highlight the need for harmonization, first in Europe, especially in countries covered by the European Union, and later the world. We tried to achieve this goal by making a comparison between the Romanian national regulations with IFRS and U. S. GAAP rules. Thus, the study came to the same conclusion we made above: that adopting IFRS or U. S. GAAP reconciliation of their sites is almost impossible, yet in this situation would be much easier for U. S. companies to adopt IFRS than for companies in Romania. This is because U. S. GAAP is more similarities than IFRS with Romanian national regulations. However it is known that following the accession to the European Union have made great progress in accounting harmonization means, but it is not enough to say that the all accounting system from Romania is harmonized with International Financial Reporting Standards .

Why is it so necessary to harmonize accounting primarily on European and then world? To answer this question, we first noted the difference between harmonization and standardization of accounting. The processes of harmonization understand bringing the same level of national accounting standards and practices, in order to facilitate comparability of financial statements across countries. Harmonization is also part of normalization, is considered the first step towards normalizing accounts. Such accounting normalization can be defined as "the process of harmonizing the presentation of the summaries, the accounting methods and terminology." (Feleagă, 1999)

Returning to the previous question is necessary to harmonize accounting primarily to create transparency regarding accounting, accounting information can be internationally comparable, and this would have result in attracting investors needed especially in emerging countries. Why do we attract investors by accounting harmonization? Because it would be much easier for them to understand accounting if it is the same everywhere and thus achieve a cost reduction in the development, consolidation and audit financial statements.

What is the purpose of accounting normalization? Its aim is the application of the same accounting rules in European countries and beyond, and with accounting normalization aims to create uniform accounting practices. The accounting standardization imposes a single set of rules, or even a single standard to be applied in any situation.

If the accounting harmonization is intended to diminish or even eliminate differences between national regulations in different countries, the normalization you should use the same laws regarding accounts in different countries, so it is considered normalization be more difficult to implement than harmonization.

Speaking of accounting harmonization in Romania, but also in the world it has become a necessity the liberalization of financial markets and their develop because harmonization is achieved through a better allocation of financial resources, lowering transaction costs, all these are possible through transparency credibility and the ability to compare accounts of different countries. Given these, we consider harmonization at EU level and globally being started but not finished.

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