ISSUES RELATED TO THE ACCOUNTING TREATMENT OF THE TANGIBLE AND INTANGIBLE ASSETS DEPRECIATION

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The issue of accounting depreciation is an older concern of this study's authors on the incidence over the true and fair view of the earning and the net value of the non- current assets. Proceeding from the consideration that the present depreciation methods, acknowleged by the accounting standards and regulations are not sufficient to render the reality of the irreversible impairment of the fixed assets nor that of the material and immaterial investment recovery we performed a research on the indicators reported by 20 companies in Cluj county and we applied a questionnaire to each entity on the depreciation methods used, their incidence on the true and fair view and their proposals for the completion of the depreciation methods.
The objective of the research is to identify the most appropriate depreciation methods, truthfully illustrating the effects of the irreversible impairment on the net asset and on the earning, to introduce the excluded assests in the cathegory of the non-current assets (like property and plant, goodwill, intangible assets created with ones own strengths) and the enforcement of appropriate treatments to the revaluation differences and their own overhead investments.
The International Accounting Standard IAS 16 – Property, plant and equipment refers to three depreciation methods: the straightline method, the diminishing balance method and the technical depreciation method (units of production method). In Romania only two of these methods are accepted: the straightline method, the diminishing balance method and the accelerated method was additionally instilled, which is used internationally in exceptional situations and not currently.
The results of the research led us to the following conclusions:
- *for the depreciation of the machinery, facilities and technological equipments it is recommended to use the technical depreciation method or the units of production method;*
- *taking into consideration the financial conception on the non-current assets the depreciation of all cathegories of tangible and intangible assets is recommended, the purpose being the gradual recovery of the investment in these assets and not the covering of the wear and tear or obsolescence;*
- *the surplus value resulted from the revaluation of the tangible assets musn't be depreciated because it generates in fictional expenses;*
- *the depreciation of the overhead assets musn't be acknowledged as an expense but it should be treated as a reduction in the income resulting from fixed assets;*
- *the completion of the depreciation concept with its financial meaning, namely the process of recovering the investments in tangible and intangible assets;*

The application of the research results leads to correcting the image provided by financial reportings on the tangible and intangible assets contribution to the income, the depreciation's reflection in the expenses and the net value of these assets.
The contribution of the authors consists in interceding to ensure the application of the research results by modifying and completing the national accounting rules in order to achieve accounting's consecrated objective: reproducing a true and fair view on the financial position

and performances. These issues have not been addressed in other specialty studies in the country or abroad.

Key words : irreversible depreciation, accounting depreciation, technical depreciation depreciation, provision for positive reevaluation diferences.

JEL Codes : M41, M42

I. Introduction

The tangible and intangible assets are material and value investments with the period of usage exceeding the length of a financial year. As these assets do not run to waste after their first usage, the depreciation process is used to consign that part of the value which is transmitted on, to the goods, workings and services. In the literature there are three depreciation concepts that stand out, namely:

- The economic concept acording to which depreciation is the process whereby the value equivalent of an asset's irreversible impairment, due to the use of the natural factor's action, the technical progess or other reasons, is transmitted on, to the value of the goods, workings and services.
- The financial concept accordind to which depreciation is the process of gradually recovering the investments in tangible and intangible assets as a result of the contribution of these goods to achieving the added value.
- The accounting concept according to which depreciations is the systematic allocation of an asset's depreciable amount along its useful life, by recognizing as an expense in accordance with the asset's contribution at the achieved economic earnings ;

Summarizing the above three concepts one can conclude that depreciation is the process of systematically assigning the depreciable amount of an asset along its useful life with the purpose of ensuring the investment's recovery and/or the compensation of the irreversible impairment, as a result of the usage, the action of the natural factors, the technical progress, etc. In accounting terms, the value calculated as the share to be allocated is subject to depreciation and is called redemption. The depreciable amount of tangible and intangible assets is represented by the accounting value diminished with the residual value (recoverable amount at the end of the useful life). In Romania, according to the consecrated practices the residual value is considered to be void. The useful life according to international accounting standards is defined based on company's estimated utility for the concerned asset, based on the experience with other similar assets.

There are three variables standing at the basis of establishing the redemption:

- asset's depreciable amount
- useful life
- depreciation method.

These three variables define the size of the redemptionand in give in the end an image on the activity's earnings and the net value of the assets.

Starting from these premises we initiated the reasearch on the way of establishing the redemption as well as on its accounting treatment taking into account its effects on the results and on the net asset but also a reasearch on the capitalization/de-capitalization of the economic entities.

The research goals are focused on the following directions:

a. establishing the size of the redemption with the purpose of objectively reflecting an economic reality, including the acceptance of new depreciation methods
b. changing the accounting treatment applied to the fixed assets which do not suffer from physical and moral wear, but are investments to be recovered over the business's lifetime

c. applying accounting treatments which are approapriate for the depreciation of the revaluation differences and of investments made with ones own strengths

The questions that the present research is answering at have also been subject of the questionnares applied in 20 companies in Cluj County, and they refer to:

1. What depreciation method do you apply?
2. Does the used depreciation method reflect the economic reality of the irreversible impairment and of the investment recovery? In the case of technological equipments would you choose the technical depreciation method provided by the international accounting standards?
3. Is the useful life of the depreciable assets established based on the Tangible assets Catalogue issued by the Ministry of Finance or by a technical committee which reviews the asset‘s operating conditions and the economic benefits the asset is expected to produce ?
4. Do you consider that the exclusion of some assets from the amortization- land, goodwill, etc. – generates overated results?
5. Does including the positive revaluation differences in the expenses as the asset is being depreciated, represent an artificial increase of losses
6. Does the inclusion of one’s own investmens in the expenses as the depreciation is in progress represent a reduplication of the expenses?

II. Literature analyses, previous researches and field practices

Being a regulated industry the literature is insufficient, the existing one being limited to promoting the actual rules and very little to analyzing the incidency on the fair view. The Romanian literature partially accepts the depreciation methods under the international accounting standards and the european accounting regulations which does not ensure the convergence with the international depreciation meanings. The foreign literature promotes diversified depreciation methods in order to provide a sufficient basis for the real systematic allocation of the fixed assets shares on the expenses against the benefits from these assets. The international accounting standards IAS 16 – Property, plant and equipment, IAS 38 – Intangible Assets and IAS 36 – Impairment of assets are the starting point in achieving this research. In addition we relied on the european and national accounting regulations and on the accounting studies (books, manuals, articles, etc.) published in Romania in the last two years.

III. Research methodology

The present study is an applied research having the purpose of correcting and addressing weaknesses in the approach of the fixed assets depreciation process and in treating the accounting information. The research was based on the study and the interpretation of the international accounting standards, the European reglementations, the national accounting rules and on the application, processing and analysis of the 20 questionnaires containing the questions to be answered by this research. The use of the study, surveys and observation is relevant to see the option of improving some accounting regulations which in some cases do not reflect the economic reality when being applied. In regard to the 20 sample companies we consider to have chosen important businesses, involving the management of fixed assets with a significant share in the total assets of the chosen companies, being part of the large (8) and medium (12) companies.

IV. Research’s results

After the questionnaire processing the research results on the addressed topics were the following:

- With regard to the applied depreciation method 87% use the straightline method for all the tangible assets, 9% the straightline and the diminishing balance method and 4% the straightline, the diminishing balance and the accelerated method

- The used depreciation method reflects the economic reality of irreversible impairment, respectively of investment recovery in the cases of constructions, furniture and intangible assets. All the respondents felt that in case of technological equipments these methods do not reflect the economic reality and that the technical depreciation should be accepted by the regulations
- Regarding the useful life of depreciable assets 82% responded that it is established by the Tangible assets catalogue issued by the Ministry of Finance and only 18% established a technical committee to review the asset's conditions of operation and the economic benefits this asset is expected to produce
- Excluding some assets from depreciation is considered an error because the investment in land contributes to future economic benefits and the built land doesn't have the same value as the open one. For any other investments in intangible assets it is considered that they should be depreciated if they produce future economic benefits, otherwise being considered a waste. The overvaluation of the results as a result of not depreciationg the lands and other assets leads to false profit declaration and business decapitalization by paying taxes on income and dividend distribution.
- Including positive revaluation differences in the expenses as the asset's depreciation is in progress is considered by 64% as being an artificial increase of the losses, trying to force an equity increase on the behalf of the expenses.
- All the respondents agreed upon the fact that including one's own investments in the expenses as the depreciation is in progress is a mistake, the option being the reduction of revenues coming from fised assets production.

The conclusins this research is conducting at are:

- for the depreciation of machinery, facilities and technological equipments the use of the technical or the units of production method is recommended. This method ensures the recognition of the amortization as an expense in regard to the use of machinery, facilities and technological equipments for achieving future economic benefits.
- starting from the financial conception on fixed assets and their capacity to produce a profit the armonization of all asset categories, tangible and intagible, in recommended, the purpose being the gradualrecovery of the investment in these assets and not only the covering of the physical and moral
- the ups in value resulting from the revaluation of tangible assets do not have to be depreciated because they generate ficticious expenses. If one wants capitalization at the level of revaluated value for the positive revaluation differences we consider the creation of a provision for positive evaluation differences as being indicated. Even more since these positive revaluation differences can be reversible and they can diminish at a further assessment.
- the depreciation of assets achieved on its own account shouldn't be recognized as an expense but it should be treated as a diminishing in the income coming from fixed assets.

The results of this research are supported by the answers to the applied questions and from our estimations they reflect the conceptions of the majority of business manager which are interested in the true and fair view of the business administration and not due to regulations that are not based on a minimum of applied research.

V. Conclusions

The application of this research's results will lead to the normalization of the image offered by the financial reporting of tangible and intangible asset's contribution to the income, the depreciation's reflection in expenditures and the net value of these assets. Acceptance and implementation of the technical depreciation method will lead to recognising the redemption for

using the asset and also the depreciation of land and other assets excluded so far, will be the basis for achieving the real economic benefits. All those majoring in accounting, who will apply the knowledge gained from this research's results will see a profound change in the economic activity's outcome and will understand that the accounting judgment should be based on capturing and reproducing economic realities, using numbers and not blindly applying accounting regulations which leave asside the international accounting standards.
The contribution of the authors consists in interceding to ensure the application of the research results by modifying and completing the national accounting rules, as well as the alignment with international accounting standards, in order to achieve accounting's consecrated objective: reproducing a true and fair view on the company's financial position and performances. The study is unique as these issues have not been directly addressed before in other specialty studies in the country and abroad.

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