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ACCOUNTING AND TAX TREATMENT OF THE RE-EVALUATION OF THE TANGIBLE ASSETS

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Abstract

The methods of patrimonial evaluation are recognised on a large scale by the specialists in the Continental Europe, while the specialists in the North America almost ignore them, they consider as a realistic economic value the one that results from the update of the forecast cash-flows. The Romanian financial school does not mention at present a basic orientation related to the continental or American opinion. In general, it can be found out that the attitude of the Romanian authors, specialised in the accounting domain, is for the patrimonial methods, and those in financial professional domain, is for the financial and stock methods. According to the International Standards for business evaluation, the "asset based approach is the way to estimate the value of a business and /or the participations to it, using methods based on the market value of the individual assets of the business, decreasing its debts". The entities can proceed to the re-evaluation of the tangible assets that exist at the end of the financial exercise, so that they are presented to their true value in accounting, reflecting the results of this re-evaluation in the financial reports made for that exercise. In this context, the present paper proposes the analysis of the ***accounting and tax treatment*** *foreseen by the accounting regulations, according to the European directives, and to the procedures of evaluation and re-evaluation of the tangible assets.*

Key words: *accounting value, accounting treatment, fiscal treatment. immobilisation, re-evaluation*

INTRODUCTION

The main idea of the patrimonial methods of evaluation is that the enterprise value is equal to the patrimony value it owns. The methods mean an identification of the assets to evaluate and they do not aim the potential result associated to the future activity. The start point for this estimation is the patrimony value reflected in the financial situations. According to this definition, the patrimony, equivalent to the ***net accounting asset***, aims exclusively the elements reflected in the balance sheet, either they participate or not in the exploitation process. There are two possibilities to calculate the patrimony value thus defined: either by decrease of the debts values in the total assets, or by summing the elements that represent the own capital and thus due to the shareholders (Manaţe D, 2010). ***The net corrected asset*** (ANC) aims to eliminate the limits of the net accounting asset and to provide a more accurate dimension to the enterprise value about the economic reality. In order to determine the net corrected active it is needed the critical analysis of each element of calculation, depending on the concrete reality and of its value on the evaluation. In the evaluation practice for the calculation of the net corrected asset the assets expression is made depending on their use value. Due to the lack of a rigorous definition the *use value* will be considered as being „the sum that a cautious and authorised enterprise manager, would accept to pay in order to obtain the wanted immobilised asset, taking into account the use that its possession has for the achievement of the enterprise objectives" (Tournier J.C., Tournier J.B.,2010)

MATERIALS AND METHODS

The basic treatment foresees that the corporal immobilisations are present in the balance sheet at **cost**, adjusted with **the value of the cumulated amortisations and of any cumulated losses in depreciation.** The alternative treatment foresees that after the initial recognition, a corporal immobilisation is present in the balance sheet at the **re-**

evaluated value, based on the just value in the moment of the re-evaluation, less the cumulated amortisation and losses in depreciation. IAS 29 foresees, besides the two treatments, the evaluation by methods that take into account the inflation, respectively re-treating the historical cost to inflation. The assets that are re-evaluated on the date of the balance sheet or that are evaluated on the current cost, on the date of the balance sheet are not re-treated.

The lands evaluation that are in the enterprise property of is recommended to be made by real estate evaluators, familiarized with the methods of land evaluation (Stan S, 2000) respectively: the direct market comparison, the allocation method, the extraction, the parcelling, the residual method, the capitalization of the gross rent. *The direct comparison* is method recommended for the evaluation of the free lands, without constructions. The method implies the analysis of the sale prices and of the characteristics of the land sales in the period immediately after the evaluation moment, in order to compare and adjust these prices to reach to a market value for the land subject to evaluation. *The allocation method* is recommended by the practice of the evaluation of the built lands. The principle on which the method is based is the determination of the share of the land value in the total value of a property. *The extraction* is an evaluation method, derived from the allocation method, which consist of the deduction from the sale price of a property of the construction value, calculated on the net replacing cost, and the resulted value is the land value. *The parcelling method* takes into account the best use, from building point of view, of each land parcel resulted after the division of a larger land surface. *The residual method* takes into account the contribution of the two types of invested capital, buildings and land, to obtain and distribute the net profit of the entire business, resulted following an investment made on the land subject to evaluation.

The method of gross rent capitalization is used for the evaluation of the rented lands, allowing the capitalization of the rent collected by the rented land owner to a user. The agricultural lands are evaluated using *the comparison method*, the same as in case of non agricultural lands, or *method of net rent capitalization.* The second method reflects what David Ricardo mentions (Tournier J.C., Tournier J.B.,2010) that „the price of the agricultural land is the capitalized rent at the present interest rate". The corrections made at the level of the balance sheet and account of profit and losses are, in fact, *interventions on the accounting value*, in order to transpose this specific information in „the day values".

From methodological point of view, the evaluation of an enterprise by ANC method implies passing trough a sequence of the following phases (Fiscal code Pct. 571 and pct. 715):

- check up the financial situations that contain information about the enterprise assets and debts on the evaluation date. It is preferable that the evaluation date is identified with the data on which the patrimony inventory is made;
- check up the compliance between the on the staff situation of the assets and the real situation, following some inspections made by the evaluator and which are written in the evaluation report;
- make corrections to some posts of asset and passive, according to table no. 1.

Table 1. Causes of the corrections made on posts of immobilised assets

No. crt.	Posts	Cause of corrections
1.	Non corporal assets	Depreciation / appreciation during the time
2.	Land	Reflecting the market value
3.	Buildings	Depreciation, modification of replacing cost
4.	Machines, equipment, installations	Depreciation, introducing value to those not accounted, eliminating the value of those not used

The estimation of the value of the basic components of the net corrected asset supposes corrections on the accounting value of those posts that did not register significant modifications to the accounting value. The re-evaluation represents the alternative accounting treatment allowed for the determination of the corporal immobilisations value on the date of the balance sheet. The re-evaluation of the corporal immobilisations is made on the fair value on the date of the balance sheet. The fair value is determined based on some evaluations made, as a rule, by qualified specialists in evaluation, members of a professional body in this field, recognised nationally and internationally. The fair value of the corporal immobilisations established following the r-evaluation becomes amortising value of the respective assets from the beginning of the financial exercise following the next financial one for which the re-evaluation was made. On the date of the re-evaluation, the cumulated amortisation can be treated in one of the following ways: a) it is recalculated proportionally with the change of the gross accounting value of the assets, after re-evaluation, so that the accounting value of the asset, after re-evaluation, is equal to its re-evaluated value – method based on indices; b) it is eliminated from the gross accounting value of the asset, and the net value, determined following correction wit the adjustments of value, it is re-calculated on the re-evaluated value of the asset.

RESULTS AND DISCUSSIONS

The surplus in the re-evaluation included in the re-evaluation reserve is capitalized by the direct transfer in reserves, when this surplus represents an achieved gain. The gain is considered achieved when taken out from the evidence of the asset for which the reserve in the re-evaluation was made. Nevertheless, a part of the gain can be achieved while the asset is used by the entity. In this case, the value of the transferred reserve is the difference between the amortisation calculated based on the re-evaluated accounting value and the amortisation value calculated based on t initial cost of the asset.

The re-evaluation of the corporal immobilisations at the end of the financial exercise constitutes the **alternative accounting treatment** foreseen by the accounting regulations according to the European directives. **The basic accounting treatment consists of the presentation of the immobilisations in the balance sheet,** at the entrance value, less the cumulative adjustments of value. The application of the **alternative treatment** of evaluation supposes that, after the initial recognition of a corporal immobilisation, this is presented in the accountancy to the fair value, instead of the purchase cost/production cost or any other values before that asset. The main aspects on the re-evaluation of the corporal immobilisations, refer to**: establishing the fair value of the assets, frequency of re-evaluations, accounting registration of the re-evaluation results, treatment of amortisation related to re-evaluated amortisations, accounting treatment of surplus from re-evaluation, requirements for information presentation, aspects presented briefly as follows.**

Establishing the fair value of immobilisations is achieved according to the accounting regulations, based on some evaluations made, as a rule, by qualified professionals in evaluation, members of a professional body in this field, recognised nationally and internationally. **The fair value of the corporal immobilisations is determined, in general, starting from their market value**. The re-evaluation is applied simultaneously on the entire groups of which the asset is part, respectively on the goods of t same nature and similar use tat are used by an entity, in order to avoid the selective re-evaluation and reporting in the annual financial situations of some values that are a combination of costs and values calculated on different data. The result of the re-evaluation is determined by comparing the net accounting value of the asset with the fair value, established following the re-evaluation.

The main aspects on the **accounting registration of the re-evaluation result and the accounting treatment of the amortisation related to the re-evaluated assets and of re-evaluation surplus**, contained in the mentioned accounting regulations, are summarised in tables 2 and 3.

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The depreciation calculated for the re-evaluated corporal immobilisations is registered in accountancy starting wit the financial exercise that follows after that for which the re-evaluation was made.

Table 2. Registration of re-evaluation result

Rectification	Accounting treatment
Increase of net accounting value	**-as an increase of the re-evaluation reserve** , registered in the account credit 105 Reserves in re-evaluation, **if there was not a previous decrease** recognised as expenditure related to tat asset
	- **as an income** reflected in the account credit 7813 Incomes from adjustments for the depreciation of immobilisations), **to compensate the expenditure with the previously recognised decrease at that asset**
Decrease of net accounting value	- **as an expenditure with the entire value of t depreciation** (account 6813 Exploitation expenditure on adjustments for the immobilisations depreciation), when in the re-evaluation reserve evidenced in account 105 Re-evaluation reserves, a re-evaluation surplus is not registered
	- **as a reserve decrease in re-evaluation** (by account debit 105) , in the limit of the creditor balance of the re-evaluation reserve, **and the potential difference remained uncovered is registered as expenditure** by the account debit 6813 Exploitation expenditure regarding the adjustments for the depreciation of immobilisations.

The rules on amortisation apply to asset, considering its value, determined following the re-evaluation.

Table 3 Accounting treatment of the amortisation and re-evaluation

Accounting treatment	Registration
Accounting treatment of amortisation	- **re-calculated proportionally with the change of the gross accounting value of asset**, so that the accounting value of asset, after re-evaluation is equal with its re-evaluated value
	- - **eliminated from the gross accounting value, and the net value, determined following the correction with value adjustments, is re-calculated at the re-evaluated value of the asset.**
Surplus treatment from r-evaluation	**-it is capitalized by direct transfer in reserves, by account credit** 1065 Reserves representing t surplus achieved from re-evaluation reserves, **when this surplus represents the achieved gain**, respectively *when taking out of the evidences the asset for which the re-evaluation reserve was made or as the asset is used by the entity*.
	- **No part of re-evaluation reserve can be distributed, directly or indirectly, except for the case in which the re-evaluated asset was used, situation in which the re-evaluation surplus represents the effectively achieved gain.**

We consider that only the sums reflected in the account 1065 reserves representing the surplus in reserves in re-evaluation related to assets sold that can be distributed, not those registered in account 105 Reserves in re-evaluation.

In case in which the re-evaluation is made, in the explanatory notes must presented, separately, for each element in the balance sheet of re-evaluated corporal immobilisations, following the information: value to historical cost of re-evaluated immobilisations and sums of cumulated value adjustments or the value on the date of balance sheet of the difference between the value resulted in the re-evaluation and that representing the historical cost, and, when applicable, the cumulated value of the supplementary value adjustments. At the same time, the entities must present in the explanatory notes information related to: value of re-evaluation reserve at the beginning for the financial exercise, differences in re-evaluation transferred to reserve in re-evaluation during the financial exercise, sums capitalized or transferred in another way from the re-evaluation reserve during the financial exercise, presenting the nature of any such transfer, observing the legislation in force, re-evaluation reserve value at the end of the financial exercise. This information must b presented regardless the reserve value was modified or not during t financial exercise (Pierre F., Besançon E.,2011).

CONCLUSIONS

The re-evaluations must be made wit a highly enough regularity, so that t accounting value of the corporal immobilisations is not different substantially from the value that would be determined using the fair value from the balance sheet date.

The account 105 „Reserves from re-evaluation“ is balanced in case of using immobilisation, and the balance of the account 1065 „Reserves representing the surplus achieved in re-evaluation reserves“ represents in fact the surplus in re-evaluation.

The income obtained from selling the corporal immobilisation, represents a taxable income to taxable profit calculation, and expenditure with the value remained unamortised is deductible from the calculation of the taxable profit.

The re-evaluation reserve highlighted in account 1065 „reserves representing the surplus achieved from re-evaluation reserves“, in case in which they are not used for covering the losses, distributing dividends, maintain the unit level, are not taxed.

The reality proves the fact that the enterprise is not only a center for profit production and capital accumulation, but also a center of knowledge accumulation and technical-organisational experiences accumulation, and when all these forms of accumulation develop in an balanced way, the enterprise achieves the goal for which it was created. So, the value of an enterprise can be measured depending on the size of its material patrimony, but it subsists also in the capacity to acquire, generate and distribute the intangible resources.

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