ACCOUNTING AND TAXATION
OF THE TANGIBLE FIXED ASSETS’ REVALUATION

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Abstract
Revaluation of tangible assets, namely the determination of fair value is required to provide a fair image of its financial position and performance. This activity is performed by authorized persons.

The value differences may be additional when the fair value is bigger than the book one, or less when it is smaller.

The accumulated depreciation to the revaluation date may be recalculated in proportion to the change of the gross asset value or it can be removed from the gross asset value.

The entity may record reserves, expenses and corresponding revenues, depending on the plus or the minus of the value.

For tax purposes, among the deductible expenses in the calculation of the income tax there are accepted only those related to the reserves’ depreciation, on the condition that they are considered taxable income.

The calculation of the income tax, the establishing of taxes on buildings, the revaluation of tangible assets and, especially, the buildings revaluation should be treated with great care and professionalism, due to the fact that they involve fiscal effects.

Keywords: revaluation, tangible fixed assets, buildings, differences, fair value, fiscal, depreciation.

JEL Classification: M41

Goods and values, which are intended for use on a continuing basis for a period exceeding one year, are an important part of the patrimony of any entity in order to perform operational and financial activities.

The tangible assets shall be entered in this category of heritage elements, also called fixed assets, which constitute the material and financial support necessary to the development of the productive and the service activities, as well as those in other fields of activity. They represent a category of heritage elements vital for achieving the activity object of each entity. They could be characterized by their long- time use, not consumed at first use, and their value usually recovers itself in phased manner, by including the expenses.

Given the details of accounting regulations in force, non-current assets are considered those assets that are intended to be used on a continuing basis, while performing entity. They are generating benefits and moreover they are in the heritage entity for a period exceeding one year.

The potential to contribute is meant for the future economic benefits, directly or indirectly, at the cash flow or at the cash equivalent to the entity. This potential can be a productive one, being part of the entity's operating activities.

In order to organize the accounting assets, their economic content and their intended purpose are envisaged. According to that, the following categories are defined: the intangible assets, the tangible and the financial assets, indicating that for the first two categories the assets in progress and the related advances are delimited.

a. The intangible assets, also called the immaterial assets, are characterized by the fact that physically they don’t take the form of specific material goods and they include: formation expenses; development expenses; concessions; patents; licenses; trademarks; rights and similar assets; commercial fund and other intangible assets, including the advances and the intangible assets in progress. These categories of intangible assets, as well as the specific elements which they contain represent the evidence objects.

Moreover, the regulations stated that “an intangible asset is an identifiable asset, non monetary, without material support and used in the production process or the supply of goods or services in order to be leased to the third parties or for administrative purposes.”

b. The fixed assets consist of: lands and buildings; technical installations and machinery; equipment and furniture; advances and tangible assets in progress. They are assets that are recognized in the balance sheet when
they are intended to be used for a period longer than one year, in their own production of goods or services in order to be leased to the third parties or used for administrative purposes.

b. The lands include the actual lands and also the land arrangements, only the latter ones being depreciable. Each land is considered as an item of evidence, classified in a group or in a category as follows: agricultural land, forest land, and land without buildings, land with underground deposits, land with constructions, and other land.

c. Fixed assets, except land, are separated into 3 main groups of assets that are depreciable, namely: 1. Constructions, 2. Technical installations, means of transport, animals and plantations where four subgroups are delineated as follows: a. Technological equipment (machinery, equipment and installation work) b. Equipment and systems for measurement, control and regulation; c. Means of transport D. Animals and plantations. The 3rd group of assets is -Furniture, office equipment, protective equipment and materials of human values and other tangible assets.

The tangible depreciable assets category includes a tangible asset, which, besides the two mentioned conditions (destination and period of use for over a year) exceeds a minimum value set by the Government decision, which currently is 1,800 lei.

d. Advances and assets in progress are referring on the one hand, to the advances given to suppliers of tangible assets, and on the other hand, to those investments that are not finished, done for their own purposes or contract, being in different execution phases; for the completed but not received ones becoming tangible subsequently. They are put in the category of completed assets after reception, put in service or into operation, as appropriate.

e. For a period exceeding one year, the financial assets represent a specific way of fructification of the available capital or of other actions and own claim rights by using them as capitals by another entity to which financial resources are needed in order to develop activities and to extend economic relations in the production or trade field. They consist of shares in affiliated entities, loans to affiliated entities, participation interests, loans to entities by which the company is linked by virtue of participating interests and other investments held as fixed assets and other loans.

According to the general rules for assessment and, implicitly, when this operation is performed the assets of each entity are evaluated using the following four categories of values: heritage input, inventory, balance sheet or the exercise closure and heritage output.

a. The input or the accounting value is determined at the time of purchase and it is obtained from its own production or at the time of assets’ entrance into the heritage in other ways. This value is determined taking into account the origin of the assets, as shown below.

b. The inventory value of each patrimonial item is often called the current value. This value is determined by the asset’s utility in the unit, its status and the market price at the date of the inventory execution, this operation being required at least once a year, usually before ending the financial exercise.

c. The balance or the closure exercise value shall be determined in order to enter the assets into the yearly balance sheet. The input or the accounting value is compared to the inventory or the utility value so as to establish the analyzed value.

d. The heritage output value is used for recording in accounting of decreases which occur in the entities’ assets as a result of selling, actual removal from service, damage, lack of management and so. This value is the heritage input one, or the one established subsequently on the occasion of some revaluations made under the current regulations, called in both cases the book value, being in evidence on the date of the heritage output.

According to the accounting regulations in force, the entities which organize and lead the financial accounting are allowed and in some cases even recommended, to implement alternative evaluation rules at the end of each financial year. For the tangible assets, these alternative rules consist of making revaluation operations and recording results in accounting.

As it is known, it is mandatory to determine the inventory or current value for the tangible assets, known also as cost, preceding the annual financial statements. When the entity believes that it is justified and appropriate, the fair value may be determined on revaluation basis, which represents an important premise in order to provide a true picture of its financial position and also of its performance.

The evaluation, which was performed due to the inventory at the end of the financial exercise, sets the cost, rectified with depreciation and adjustments accumulated from depreciation. The revaluation determines the fair value, less the amortizations and accumulated depreciation losses, according to the applicable accounting rules.

The revaluation operation can be made for the existence of tangible assets at the end of each financial exercise or more such exercises, so that no substantial differences can appear between the input value and the fair one. It is performed by authorized persons, recognized national and / or international, and compared to the inventory which is attribute of an internal committee formed for this purpose, having the written decision issued by the entity manager.

The revaluation is an operation with a higher degree of difficulty and professionalism, and the fair value to be determined enjoys a greater credibility, as confirmed by the very way to resolve the differences to be determined,
to those relating to the inventory value. In this note, as a first aspect we mention that, for the inventory value, the initial cost (the input) remains unchanged while the fair value substitutes it.

In turn, the differences in value, more or less, established at the inventory does not affect the input value (the accounting one), but, if revaluation occurs, they increase or diminish the capital through the account 105 "Revaluation reserves". In the same way, they affect the book value of the tangible assets from which they come, which increases, respectively decreases.

It is also important to note that the revaluation operation is performed simultaneously for all items in a group of assets (lands, buildings, machinery and equipment, ships, aircraft, and so.). This avoids reporting of some combinations of cost or values calculated at different times.

The fair value determined by revaluation is attributed to the respective asset, thus replacing its input value (the accounting one). The rules regarding the depreciation apply according to the revalued amount.

The depreciation calculated for the tangible assets reviewed this way, is recorded in the books starting with January 1 of the next year for which the review was performed.

However, it is envisaged that the accumulated depreciation to revaluation date may be applied to one of the treatments that are presented below.

a. The accumulated depreciation is recalculated in proportion to the change of the gross book value of the asset so that the new net book value of the asset will equal to its revalued amount, which is advisable if the revaluation is based on an index.

b. The accumulated depreciation is removed from the gross book value of the asset and the net book value thus obtained is calculated at the revalued value of the asset, which becomes the book value. This treatment is recommended for buildings which are revalued to their market value.

The difference from the fair value and the net book value (historical cost or revalued decreased with the value depreciations) can be positive or negative.

If the result of the revaluation represents an increase to the net book value, then it shall be accounted as follow:

- either as an increase in the revaluation reserve, if it is the first revaluation or there was not a decrease in value at the previous evaluation,
- either as an income, if there was a decrease in value at a previous revaluation. The revenue is recognized to the previous decline, the rest is recorded as an increase in the revaluation reserve.

If the result of the revaluation represents a decrease to the net book value, then it shall be accounted as follow:

- either as an expense, if it is the first revaluation or there was not a decrease in value at the previous evaluation,
- either as a decrease of the revaluation reserve, if there was an increase in value at a previous revaluation. This decrease is up to the previous growth, the rest is recognized on account of expenses.

We believe that the Progress S.R.L Commercial Company purchase a building on 01.01.2003. The input value (accounting value) is 400,000 lei, the duration of use is for 40 years, linear depreciation regime.

- construction acquisition:

<table>
<thead>
<tr>
<th>%</th>
<th>404</th>
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</thead>
<tbody>
<tr>
<td>Providers of fixed assets</td>
<td>496,000</td>
</tr>
<tr>
<td>Constructions</td>
<td>400,000</td>
</tr>
<tr>
<td>4426</td>
<td>96,000</td>
</tr>
</tbody>
</table>

  Year depreciation: \( D_t = \frac{400,000}{40} \)

- depreciation of the year 2003:

  | 6811 | 2812 |
  | Operating expenses for fixed assets depreciation | Constructions’ depretiation | 10,000 |

- depreciation of the year 2004:
Operating expenses for fixed assets depreciation

- depreciation of the year 2005:

\[
\begin{align*}
\text{6811} & = \text{2812} \quad 10,000 \\
\end{align*}
\]

On 31.12.2005 the revaluation made by a professional evaluator is done, resulting a fair value of 478,800 lei.

\[
\text{N.B.V.} = \text{V.C.I.} - \text{D},
\]

where:
- N.B.V. = net book value,
- I.V. = input value (value of historical cost),
- D = present depreciation at the revaluation moment.

For the first evaluation:
- I.V. = 400,000 lei
- D = 10,000 x 3 = 30,000 lei

\[
\begin{align*}
\text{N.B.V.} & = 400,000 - 30,000 = 370,000 \text{ lei} \\
\end{align*}
\]

Due to the fact that the fair value is bigger that the NBV, a revaluation surplus of 108,800 lei results:

\[
478,800 - 370,000 = 108,800 \text{ lei}
\]

- the accounting records determined by the revaluation on 31.12.2005:
  - depreciation cancellation:
    \[
    \begin{align*}
    \text{2812} & = \text{212} \quad 30,000 \text{ lei} \\
    \end{align*}
    \]
    - constructions’ depreciation constructions
  - surplus record from revaluation:
    \[
    \begin{align*}
    \text{212} & = \text{105} \quad 108,800 \text{ lei} \\
    \end{align*}
    \]
    - constructions reserves from revaluation

In the balance sheet closed on 31.12.2005, the construction is recognized as a tangible fixed asset at the fair value of 470,000 lei, and the accumulated depreciation is zero because it was canceled at the construction revaluation date.

For the period to follow (36 years), the yearly depreciation is recalculated:

\[
\frac{478,800}{36} = 13,300 \text{ lei}
\]

- depreciation for the year 2006:

\[
\begin{align*}
\text{6811} & = \text{2812} \quad 13,300 \text{ lei} \\
\end{align*}
\]

- depreciation for the year 2007:

\[
\begin{align*}
\text{6811} & = \text{2812} \quad 13,300 \text{ lei} \\
\end{align*}
\]
In terms of tax, the depreciation expenses, related to the increase in value (3,300 lei/year) are not deductible of the year 2006 and are deductible of the year 2007 in calculating the income tax.

On 31.12.2007 a second revaluation of the construction is done, the fair value being of 50,800 lei.

\[
\text{N.B.V.} = 478,800 - 26,600 = 452,200 \text{ lei}
\]

The fair value (550,800 lei) is bigger than N.B.V., thus a surplus of revaluation of 98,600 lei results:

\[
550,800 - 452,200 = 98,600 \text{ lei}
\]

- the accounting records determined by the second revaluation, on 31.12.2007:
  - depreciation cancellation:
    \[
    2812 = 212 \text{ lei}
    \]
  - surplus record from revaluation:
    \[
    212 = 105 \text{ lei}
    \]

After the second revaluation in the balance of 2007, the construction is recognized as a tangible fixed asset at the fair value of 550,800 lei, and the accumulated depreciation is zero because it was canceled at the construction revaluation date.

For the period to follow (34 years), the yearly depreciation is recalculated:

\[
D_3 = \frac{550,800}{34} = 16,200 \text{ lei/year}
\]

- depreciation for the year 2008:
  \[
  6811 = 2812 \text{ lei}
  \]
  Operating expenses for fixed assets depreciation

- depreciation for the year 2009:
  \[
  6811 = 2812 \text{ lei}
  \]
  Operating expenses for fixed assets depreciation

In terms of tax, the depreciation expenses, related to the increase in value (3,300 lei/year + 2,900 lei/year) are deductible in calculating the income tax from the period 2008-2009. Income since 05.01.2009 they have also been considered taxable.

On 31.12.2009 a third revaluation of the construction is done, the fair value being of 464,000 lei.

\[
\text{N.B.V.} = 550,800 - 32,400 = 518,400 \text{ lei}
\]

The fair value (464,000 lei) is smaller than the N.B.V., resulting a revaluation decrease of 54,400 lei, amount which will decrease the reserve from the recorded revaluation:

\[
464,000 - 550,800 = -54,400 \text{ lei}
\]

- the accounting records determined by the third revaluation on 31.12.2009:
  - depreciation cancellation:
    \[
    2812 = 212 \text{ lei}
    \]
  - decrease record from revaluation:
    \[
    105 = 212 \text{ lei}
    \]
Reserves from revaluation

Constructions

For the period to follow (32 years), the yearly depreciation is recalculated:

\[
D_4 = \frac{464,000}{32} = 14,500 \text{ lei / year}
\]

- depreciation for the year 2010, and the next ones:

\[
\frac{6811}{2812} = \frac{14,500}{14,500} \text{ lei}
\]

Operating expenses for fixed assets depreciation

Constructions’ depreciation

In the balance of the year 2009, the construction is recognized as a tangible asset at the fair value of 464,000 lei, and the accumulated depreciation is zero.

The monthly depreciation expenses, related to the revaluation reserves are deductible in calculating the income tax, but they have also been considered taxable for the period to follow (4,500 lei/year).

Bibliography: