CRISIS EFFECTS ON TANGIBLE ASSETS REVALUATIONS
A STUDY OVER ROMANIAN BUILDINGS

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Abstract
In this paper we have tried to measure the impact that crisis it had over the revaluation process of buildings from Romania. This study includes a sample of 239 buildings from a district from Romania. Buildings belong to 67 shares companies. The period we have analyzes is between 2008 to 2011 but we have also used data about the past years of revaluation in order to establish the differences. The study involves observing the values fluctuations of buildings during financial crisis. To measure buildings fluctuations we have used fair value obtained during revaluation and inventory value recorded before revaluation, also used as imposable value. Having this two important values, we have compared them in order to observe if exists an increase or a decrease during the years of financial crisis. We have followed the evolution of revaluation differences within years and values observing both appreciations and depreciations. Also, we have analysed the periodicity with which buildings are revaluated and its importance over the taxation. Results show that the majority of the buildings have experienced a decrease from initial value in the period when our country passed through the famous crisis. In the years following the crisis buildings values have increased slightly, most registering increases up to 25%. Also, it shows that most companies which make reassessments of buildings, usually are done at 3 years to pay a minimum tax.

Keywords: Asset reevaluation, economic crisis, buildings, Romania

JEL classification: M40, M41

1. Introduction

Revaluation has known an increasingly interest because revalued operating assets are more value relevant than non-operating assets (see Barth M.E. and Clinchf G., 1998). Also, Missonier-Pierael F. (2007) suggests that asset revaluation improve financial image for stakeholders and creditors and borrowing capacity. Revaluation represents a credible signal for potential investors (Gaeremynck A. and Veugelers R., 1999) and borrowing capacity (Cotter J. and Zimmer I., 1995).

Revaluation according to romanian regulations, involves the use of fair value instead of net accounting value, taking into account inflation, market price, utility and asset condition. But, the revaluation of tangible assets must be done by qualified persons in this purpose. Assets from the same class of tangible assets will be reassessed simultaneously to avoid selective revaluations and inconsistent reportings.

If after the revaluation will result an added value, it will be recorded as an increase of revaluation reserve and contrary will be recorded as a decrease in revaluation reserve (Pântea P. & Bodea G., 2006:65). According to some studies, approximately 40% from the net value of tangible assets is assigned to revaluation reserve (Lin Y.C. and Peasnell K.V., 2000) observe that companies which made their revaluation at the specific terms are not correlated with prior revaluations because it doesn’t exist a developed theory of regularity of revaluations.

Tangible assets are revalued for maximum efficiency usually at 5 years and here we mean a complete revaluation of assets categories and one interim at 3 years. Specialized lands and buildings are revalued at depreciated replacement cost and for the rest of the lands and buildings is used value in use. Other tangible assets are revalued at market value (Ristea M. et al, 2006).

Lin Y.C. and Peasnell K.V. (2000) observe that companies which made their revaluation at the specific terms are not correlated with prior revaluations because it doesn’t exist a developed theory of regularity of revaluations.

Researchers have correlated and analyzed revaluation with many issues and indicators during their studies. Brown et al. (1992) and Whittred and Chan (1992) find that revaluations are associated with the existence of debt contracts, high leverage, reduction of political costs, simultaneous issues of bonus shares, and avoidance of hostile takeover bids. Also, Lin Y.C. and Peasnell K.V. (2000) present a positive correlation of revaluation with indebtedness, poor liquidity, size and fixed asset intensity. And Ghicas D.C. et al. (1996) study the connection between tax benefits of fixed assets revaluation and stock returns finding significant association for several years. Revaluation implications are: increase in the book value of the fixed assets and an increase in
owners’ equity. Contrary to the previous literature, future cash flows and market returns were not related to the 
(size of the) revaluation indicating that the revaluation decision is not viewed as being informative or timely by 
the market (see Barlev B. et al. 2007).

Revaluation also involves both advantages and disadvantages. Cotter J. (1999) considers that 
revaluation advantages are the reduction of leverage and it provides credible signals of exit values of assets in 
his study about the relationship between asset revaluations and debt contracting. And, revaluation disadvantages 
are the additional out-of-pocket costs according to Lin Y.C. and Peasnell K.V. (2000).

Revaluation process may be influenced by several factors and by many requirements. Lin Y.C. and 
Peasnell K.V. (2000) have identified that decision of revaluation may be influenced by economic factors like 
issuance of bonus shares, strike frequency, takeover threats, size, tightness of lending agreements, indebtedness, 
raising new debt, declining operating cash flow, liquidity, growth prospects, existence of assets which can be 
revalued, and prior revaluation pattern. Barlev B. et al. (2007) showed that revaluation motives can be related to 
financial needs, capital intensity of the form and issues related to political costs. And Demsiki J. et al. (2009) 
surprise a vast array of revaluation requirements imposed by GAAP, including lower of cost or market for 
inventory, net realizable value for receivables, a less restrictive variant of lower of cost or market for long lived 
assets, and fair value for a variety of financial instruments. But when the level of initial investment is readily 
observed, the revaluation policy that maximizes aggregate expected surplus imposes no revaluation 
requirements.

Where there is a policy revaluation, there will be an increase of private information that would reduce 
balance sheet error. This policies are optimal if is more costly to verify the worth of high-value assets than of 
low-value assets (see Demsiki J. et al. 2009).

Revaluation constitutes a major departure from historical cost (Lin Y.C. and Peasnell K.V., 2000), 
giving place to fair value in selected areas (Barlev B. et al., 2007). Still, accounting regulators disclaim the 
importance of historical cost specially in inflation periods trying to impose as a solution, revaluation of fixed 
assets, with change in value added to revaluation reserve (see Ghicas D.C. et al., 1996).

If an asset can’t be revaluated, that good will be presented in balance at cost minus cumulative value 
adjustments. If the fair value can’t be determined, will be presented in the balance sheet at a revalued amount 
minus cumulative value adjustments (OMFP 3055/2009).

Fair value under international accounting standards represents the amount an asset can be traded or a liability settled, voluntarily, between parties which are in acknowledge, in a transaction where the price is determined objectively.

Most of the times, fair value doesn’t coincide with market value because not always exists an active 
market for that goods. Even fair value is not considered a valuation basis according to accounting framework, 
there are different ways of its manifestation like: current cost, realizable value, present value. But, more 
international accounting norms regard fair value as a valuation basis (see Berhenci, M., 2010).

The cases where is mentioned valuation at fair value in accounting regulation according to European 
directive are: valuation of assets obtained free, valuation of tangible assets, which is done at fair value from 
the balance sheet date, fair valuation of financial intruments in the consolidated financial statements etc. 
(Berhenci, M., 2010).

It should be used fair value in order to present financial reportings at values according to the reality 
because it reflects more precisely company’s financial position while historical cost lead to a fictive accounting 
(Berhenci, M., 2010).

Fair value offers util information if the markets are liquids and transparents and play a determinant role 
in investment decision (RFCP 1/2009). Also it seems to be the most adequate valuation basis according to 
Hooper, K., Kearins, K., (2005), due to the fact that represent the exchange value of future economic benefits. 
Eccles, T., (2005) enhances that fair value is more relevant that the cost even if present a certain dose of 
uncertainty.

2. Data and research methodology

In this study we have tried to measure impact that crisis it had over the revaluation process of buildings 
from Romania.

This study includes a sample of 239 buildings from a district from Romania namely Bistriţa-Năsăud. 
Buildings belong to 67 shares companies. The period we have analyzes is between 2008 to 2011 even we use 
data about the past years of revaluation in order to establish the differences. The study involve observing the 
values fluctuations of buildings during financial crisis. To measure buildings fluctuation we have used fair 
value obtained during revaluation and inventory value recorded before revaluation, also used as imposable 
value. Having this two important values, we have compared them in order to see if there is an increase or a 
decrease during the years of financial crisis. We have followed the evolution of revaluation differences within 
years and values observing both appreciations and depreciations. Also, we have analysed the periodicity with
which buildings are revaluated and its importance over the taxation, in the conditions that buildings revaluated at 3 years pay 1.3% tax and buildings revaluated at 4 or 5 years pay 10% tax while nonrevaluated buildings which overcome 5 years pay a 30% tax.

In table 1 are presented the descriptive statistics of all variables used. These are: revaluation value, prior revaluation value, revaluation differences, prior year of revaluation, the year of revaluation, peridiocity of revaluation and tax rate.

Table no. 1. Frequency table of variables

<table>
<thead>
<tr>
<th></th>
<th>Revaluation</th>
<th>Prior rev</th>
<th>Rev dif</th>
<th>Prior Year</th>
<th>Year of rev</th>
<th>Years dif</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>238</td>
<td>239</td>
<td>239</td>
<td>239</td>
<td>239</td>
<td>239</td>
<td>239</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mean</td>
<td>2.48</td>
<td>2.33</td>
<td>1.04</td>
<td>2006.49</td>
<td>2009.59</td>
<td>2.98</td>
<td>2.3921</td>
</tr>
<tr>
<td>Median</td>
<td>2.00</td>
<td>2.00</td>
<td>1.00</td>
<td>2007.00</td>
<td>2010.00</td>
<td>3.00</td>
<td>1.3000</td>
</tr>
<tr>
<td>Mode</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>2007</td>
<td>2010</td>
<td>3</td>
<td>1.30</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>1.785</td>
<td>1.781</td>
<td>1.200</td>
<td>1.662</td>
<td>.911</td>
<td>.874</td>
<td>2.88845</td>
</tr>
<tr>
<td>Minimum</td>
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<td>0</td>
<td>0</td>
<td>1994</td>
<td>2008</td>
<td>0</td>
<td>1.30</td>
</tr>
<tr>
<td>Maximum</td>
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<td>6</td>
<td>4</td>
<td>2009</td>
<td>2011</td>
<td>7</td>
<td>30.00</td>
</tr>
</tbody>
</table>

Source: SPSS

3. Results

Differences in revaluation between fair values resulted after revaluation and the value recorded before revaluation, given in percentage are presented in the following table:

Table no. 2. Percentage intervals for differences in revaluation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
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<td>91</td>
<td>38.1</td>
<td>38.1</td>
</tr>
<tr>
<td></td>
<td>0-25</td>
<td>101</td>
<td>42.3</td>
<td>80.3</td>
</tr>
<tr>
<td></td>
<td>25-50</td>
<td>17</td>
<td>7.1</td>
<td>7.1</td>
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<td></td>
<td>50-100</td>
<td>7</td>
<td>2.9</td>
<td>90.4</td>
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<tr>
<td></td>
<td>&gt;100</td>
<td>23</td>
<td>9.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>239</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: SPSS

Below we present the chart for these differences.

Chart no. 1. The percentage related to revaluation differences
Most of the reassessed buildings have recorded differences from the past inventory value in the database. These differences were both positive and negative. The majority of the buildings have registered an increase up to 25 % numbering 101 buildings in percentage of 42.3%. The next category is represented by the buildings whose value have depreciated totaling 91 buildings in a percentage of 38.1%. Only 7.1% from buildings have registered increases between 25-50%, 2.9% increases between 50-100% and a percent of 9.6% increases over 100%.

Buildings reevaluation has been done between 2008-2011 years. Below we can observe the frequency of reevaluation for every year.

Table no. 3. Years of revaluation

<table>
<thead>
<tr>
<th>Valid</th>
<th>2008</th>
<th>Frequency</th>
<th>12.6</th>
<th>Percent</th>
<th>12.6</th>
<th>Valid Percent</th>
<th>12.6</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>77</td>
<td></td>
<td>32.2</td>
<td></td>
<td>32.2</td>
<td></td>
<td>44.8</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>92</td>
<td></td>
<td>38.5</td>
<td></td>
<td>38.5</td>
<td></td>
<td>83.3</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>40</td>
<td></td>
<td>16.7</td>
<td></td>
<td>16.7</td>
<td></td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>239</td>
<td></td>
<td>100.0</td>
<td></td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SPSS

For the variable presented in table, most of the revaluations are done for 2010 with a number of 92 buildings, followed by 2009 year with a number of 77 buildings. Prior to the actual reassessment, the majority of the buildings have been reassessed in 2006 and 2007 with a percentage of 37.7 % followed by the buildings revaluated in 2008 in a percent of 12,1%. The smaller percent is recorded for the buildings revaluated previously in 1994, 1997 and 2004.

The most frequent periodicity of revaluations is at 3 years for a percent of 74.9%, followed by a periodicity of 2 years in 17.2% from the cases.

The companies are paying taxes for buildings depending of revaluation frequency. Thus, for the buildings revaluated in the last 3 years they pay a tax of 1.3% from the inventory value of buildings and for those revaluated 4 or 5 years ago will be settled a tax of 10% from the value declared. Due to the 3 years reassess, the most common tax rate is of 1.3% reaching a percent of 92.9% and 4.2% pay a 30% tax rate because of a valuation made over 5 years ago.

After setting imposable value for revaluated buildings is established rate tax over building. After revaluation can result differences between taxes payed before and after, due to the increase and decrease of buildings values.

Table no. 4. Crosstabulation – percent of revaluation differences – year of revaluation

<table>
<thead>
<tr>
<th>Percent differences of &lt;0 revaluations</th>
<th>Count</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Total</td>
<td>8</td>
<td>3.3%</td>
<td>11.3%</td>
<td>15.5%</td>
<td>7.9%</td>
<td>38.1%</td>
</tr>
<tr>
<td>0-25 Count</td>
<td></td>
<td>11</td>
<td>37</td>
<td>41</td>
<td>12</td>
<td>101</td>
</tr>
<tr>
<td>% of Total</td>
<td>4.6%</td>
<td>15.5%</td>
<td>17.2%</td>
<td>5.0%</td>
<td></td>
<td>42.3%</td>
</tr>
<tr>
<td>25-50 Count</td>
<td></td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>% of Total</td>
<td>2.5%</td>
<td>2.1%</td>
<td>1.7%</td>
<td>.8%</td>
<td></td>
<td>7.1%</td>
</tr>
<tr>
<td>50-100 Count</td>
<td></td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>% of Total</td>
<td>.4%</td>
<td>.8%</td>
<td>1.7%</td>
<td>.0%</td>
<td></td>
<td>2.9%</td>
</tr>
<tr>
<td>&gt;100 Count</td>
<td></td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>% of Total</td>
<td>1.7%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.9%</td>
<td></td>
<td>9.6%</td>
</tr>
</tbody>
</table>
If we make an analysis of the obtained data based on the percentage of revaluation differences for every year we observe that in 2009 and 2010 are taking place the most important changes. Thus, in 2010 is recorded the biggest increase of the differences of revaluation, approximately 17.2%, differences between 0-25%, precede in the previous year, respectively in 2009 of an increase of the value with 15.5%. In 2010 and 2009 is recorded the biggest decrease of 15.5% respectively 11.3%. The greatest gap can be observed at the crossing from 2008 to 2009 when the value of buildings decrease with 8% from 2009 to 2008, even if in those years the buildings whose values have increased between 0-25%, increased overall with 10.9%. Another gap between values can be observed during 2010 and 2011 where the number of depreciated buildings reduces with 18%, respectively 7.6%. Still, in the same period we noticed a decrease of buildings that record differences from revaluation between 0-25% with 12.2%.

Next will present the correlation between revaluation differences and the year related to the valuation:

Source: SPSS

<table>
<thead>
<tr>
<th>Percent Revaluation differences</th>
<th>Count</th>
<th>% of Total</th>
<th>Dif Years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;0</td>
<td>1</td>
<td>.4%</td>
<td>1</td>
<td>91</td>
</tr>
<tr>
<td>% within Revaluation year</td>
<td>.0%</td>
<td>0.4%</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>5.4%</td>
<td>5.9%</td>
<td>72</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>30.1%</td>
<td>33.9%</td>
<td>0</td>
<td>4</td>
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<tr>
<td></td>
<td>.8%</td>
<td>2.1%</td>
<td>0</td>
<td>5</td>
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<td>0</td>
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<tr>
<td></td>
<td>1.3%</td>
<td>.0%</td>
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<td>1</td>
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<td>0-25</td>
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<td>1</td>
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<tr>
<td>% of Total</td>
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Table no. 5. Crosstabulation - percent of revaluation differences and differences between years

Correlation between revaluation differences and periodicity of revaluation is presented below.

Source: Accomplished by author
The biggest percent of increase of buildings values is observed at revaluated buildings at 3 years with an increase until 25%, in percent of 33.9% for 81 buildings and we observe also that is recorded the biggest decrease of 30.1%

4. Conclusions and perspective of future research

Valuation of past results is possible but is necessary an analysis of them in order to predict future improvements. In this way, valuation has an utility and its purpose is accomplished. The transition to IFRS standards have brought a more informed valuation of decisions which affects state resources, an increase of transparency and responsibilities. Valuation has an important significance in assurance of credibility of reported accounting information.

International accounting standards offer the possibility to companies to choose their own model of valuation from a variety gamma, according to their preferences.

In valuation process in the first plan are European directives and then IAS norms.

To assure the comparability of information at a global level it would be benefic a complete harmonization of European directive with international accounting standards. Even, in some aspects are incontestable similarities between this two referentials, there are numerous differences which sometimes can give great troubles about the interpretation mode. Interestingly is that even it have been a lot of discussions and debates on fair value it hasn’t brought to a common point. Disadvantages and advantages of the use of historical cost instead of fair value and inversely are still debated. Anyway, historical cost remains a cheap method to apply and offers the possibility of an immediate confrontation especially because Romanian investors are still putting a great emphasis on verifiability. But another interesting method of valuation which can lead to interminable discussion is revaluation. Revaluation, which even if is obligatory according to the law, is not completely awareness of its role and importance and bring into discussion fair value. Buildings revaluation, the object of our study is the most important category supposed to revaluation, because buildings are in permanent variation, either are modernized and the value of buildings increase, either are degraded and we have depreciations.

Determination of fair value of buildings is important both for the correct presentation of them in financial statements, in order to know the exact value of them, to calculate correspondingly amortization, for the pay of a minimum tax and for record of depreciation in the case that exists.

This study shows that most of the buildings have experienced a decrease from initial value in the period when our country passed through the famous financial and economic crisis. In the years following the crisis buildings values have increased slightly, most registering increases up to 25%. Also, it shows that most companies which make reassessments of buildings, usually are done at 3 years to pay a minimum tax. Period which this study has generally focused was after 2008 until present.

To obtain more relevant data, to observe what can led to an eventual increase or decrease, the study should continue taking into consideration various economic factors that could influence these variations. Also, it would be interesting to extend this study to the whole country for a more realistic situation of the country during this period.

Measurement bases will always apply and determine by the nature of assets, taking into account the revaluation moments and their principles. Intangible asset valuation has slight differences from stock assessment although both are evaluated according to the four specific moments and based on the traditional model.

The set of accounting rules may lead to conflicting situations, in the case of the evaluation of a particular item this provides more opportunities and the company does not have sufficient information to choose or remove some of the context.

Companies have to pay attention in determining the measurement bases because they will bring value and content to financial reports.

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