

## SUBSIDIES AND NON- REIMBURSABLE EUROPEAN FUNDS

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### **Abstract**

*Subsidies are non-reimbursable financial resources received by an entity subject to certain conditions, including their destination. From the accounting point of view, it is possible to talk about both subsidies related to assets or investments related to operating income. These forms of non-reimbursable aid are recognized, on a systematic basis, as revenues of the periods corresponding to the expenses that the subsidies will compensate.*

*Entities conducting non-reimbursable funds under External Financing Programs will use the applicable accounting treatment for grants to account for the operations generated by the receipt and use of these funds*

**Keywords:** *subsidies, asset-related subsidies, income-related subsidies, European non-reimbursable funds*

**Classification JEL:** *M41, K34*

### **1. INTRODUCTION**

European non-reimbursable funds take many forms, varying both in terms of the nature of the assistance granted and in terms of the conditions which are usually attached to it. The purpose of such aid may be to encourage an undertaking to engage in a course of activity which would not normally have been followed if the assistance had not been provided.

Receiving grants from European non-reimbursable funds by an enterprise can be significant in the preparation of financial statements for two reasons. Firstly, if the resources have been transferred, a proper transfer accounting method must be found; secondly, it is desirable to give an indication of the degree (s) in which the enterprise has benefited from such assistance during the reporting period. This facilitates comparison of an enterprise's financial statements with those of previous periods and with those of other enterprises.

There are various financial aids that institutions of the Romanian state but also the European Union offers them in:

- ✓ agriculture (SAPS campaign, etc.),
- ✓ (Green House, Rabla, etc.) or times
- ✓ situations involving natural calamities (drought, snow).
- ✓ individuals,
- ✓ companies
- ✓ administrations or ONG-s

areas that can benefit from such European or Romanian state support if they qualify under certain eligibility conditions.

Subsidies are characterized by the payment, financing, generally non-reimbursable from the state or private individuals, to some firms, private, state, mixed or individual industrial groups to

cover the difference between the producer's cost and the selling price, in principle, when the price is lower than the marginal cost, as well as for achieving certain actions and objectives

Subsidies - are non-refundable financial resources received by an entity subject to certain conditions, including their destination.

**The main purpose** of this article is to bring an extra note on the knowledge and understanding of the accounting and tax transactions of grants.

From an accounting point of view, we can talk about:

- ✓ Asset or investment subsidies,
- ✓ as well as subsidies related to income or exploitation.

These forms of non-reimbursable aid are recognized on a systematic basis as revenue of the periods corresponding to the expenditure to be compensated by the grants

## 2. SUBSIDIES

Benefit received from the state for the financing of certain expenditures as well as the non-reimbursable funds accessed by entities for the financing of some investment projects are included in the category of subsidies.

The following categories of subsidies belong to the category of grants:

- ✓ Subsidies related to assets, for which the main condition is for the beneficiary entity to buy, construct or acquire fixed assets. Investment grants accounts for investment grants as well as inventory pluses of the nature of tangible and intangible assets;
- ✓ Grants related to income, including all subsidies, other than active. Income category of operating grants includes those related to turnover, raw materials and consumables, other external expenses, personnel, insurance and social protection, other operating expenses related to other income, for the interest due.

An important observation is that the turnover will only reflect the turnover subsidy, ie the amounts collected from the budget for the settlement of goods / services delivered when the cost of production is higher than the sales price.

Government subsidies, non-reimbursable grants, other subsidized amounts are distinguished in grants.

According to the definition set out in the Accounting Regulations in line with the Fourth Directive, a component of the Accounting Regulations compliant with European directives approved by the Order of the Minister of Public Finance no. 3.055 / 2009, the asset-related subsidies are subsidies for which the main condition is that the beneficiary entity buys, constructs or acquires immobilized assets.

### 1. Categories of subsidies encountered and practiced in Romania

We can say from an accounting point of view, it can be said about either asset-related or investment subsidies, and income or operating grants.

These forms of non-reimbursable aid are recognized on a systematic basis as revenue of the periods corresponding to the expenditure to be compensated by the grants

#### **Subsidies related to assets**

- ✓ for which the main condition is for the recipient entity to buy, construct or acquire fixed assets.
- ✓ Investment grants accounts also account for investment grants as well as inventory pluses of the nature of tangible and intangible assets;

**Income subsidies** - which include all grants other than those for assets.

Income category of operating grants includes those related to turnover for raw materials and consumables, other external expenses, personnel, insurance and social protection, other operating expenses related to other income, interest due.

Grant Subsidies - Granted for use in the current exercise or for use over several exercises

**But, where can I deduce that I am for the current exercise or for the future?**

The answer given to the previous question is that these can be easily deduced from the document signed by the parties, from where it should result for what is granted to me and for what period, otherwise, if not specified, we should apply the professional judgment for the accounting for them.

**Why is it important and why does it matter whether operating grants are for the current fiscal exercise or for future periods?**

The answer is a very simple and concrete one because it is directly recorded on operating income or on incomes in advance with their subsequent passing on operating income

**Investment subsidies**

They are also awarded on the basis of documents, non-negotiable financing contracts, agreements, decisions, donations, etc., and concern the entity's investment activity. **They are never reflected in revenue at the time they are discovered**

## 2. Recognition of subsidies [3]

The subsidies may be recognized on a systematic basis as revenue from the periods corresponding to the expenditure that these grants are due to compensate. If grants are received for a (future) period, they are not revenue for that current period.

In the case of grants to cover certain expenses, they are recognized in revenue over the same period as the related expense. Similarly, grants related to depreciable assets are usually recognized in the income statement over the periods and the extent to which the depreciation of those assets is recognized.

Asset subsidies, including non-monetary grants at fair value, are accounted for as investment grants and recognized in the balance sheet as deferred income. Deferred income is recognized in the income statement on a recording basis of amortization expense or write-off or disposal of assets.

In the case of grants the grant of which relates to production or provision of services, their recognition on the revenue side shall be effected concurrently with the recognition of the costs to be covered by such subsidies.

A government grant to be received as compensation for costs or losses already incurred or for the purpose of providing immediate financial support to the entity without any future related costs should be recognized in the income statement in the period in which it becomes receivable.

When a grant for a land may be conditional on building a building on that land, the grant is recognized in the profit and loss account over the life of the building.

The revenue from net operating grants is shown in the income statement as part of net turnover and other subsidy income is shown in the income statement as a correction of the expenses for which it was granted or as income items, according to the structure provided for this purpose.

With regard to land and buildings for which subsidies have been granted and which have been partially disposed of, the grant of the subsidy to the ceding part is transferred to the income corresponding to the book value of the land, ie the buildings that were taken out of the register .

### **3. Repayment of subsidies**

The return of a subsidies related to an asset is recorded by the reduction of the deferred income balance with the reimbursable amount.

Reimbursement of a revenue-related subsidy is made by reducing the deferred income, if any, or, failing that, on the expense.

To the extent that the repaid amount exceeds the deferred income or if there is no such income, the surplus or the total amount returned is immediately recognized as an expense.

### **4. Tax issues regarding subsidies**

For companies paying tax on profits, income from investment grants are taxable and deductible expenses representing depreciation of assets. [7]

For microenterprises, operating income representing the share of subsidies received for financing investments or operating grants is not included in the taxable income tax base. In other words, the enterprises' income obtained from any source revenues minus subsidies, according to art. 53 par. (1) of the Fiscal Code.

### **5. The accounting treatment of grants from external funding programs**

Companies conducting non-reimbursable activities under external funding programs will use the accounting treatment applicable to grants to account for the operations generated by the receipt and use of these funds.

All records made in the accounts of companies using non-reimbursable funds will take into account the provisions of the finance contracts and accounting regulations in force. Consideration shall also be given to the accounting policies applicable to beneficiaries of non-reimbursable funds. [3]

The accounting procedures for companies operating under non-reimbursable funds are established in accordance with the accounting treatment applicable to both asset-related grants and income-related subsidies

When special funds are set up to finance certain investment objectives, they can be assimilated to subsidies. These funds shall be used in accordance with the objectives laid down in the normative acts on the basis of which:

- ✓ Payment of due installments for external credits
- ✓ Contracts for the payment of immobilizer suppliers,
- ✓ Payment of borrowing costs.

Companies are also required to organize internal records to meet the specific information requirements of the project as requested by the sponsor in accordance with the contractual provisions. [4]

Recognition of grants is made when the contract is signed. The registration of non reimbursable funds in the accounts is different according to their destination, as follows:

- ✓ as investment grants (asset-related subsidies) in the case of receiving and using funds to finance investments (eg purchase of tractors, performing machinery and agricultural equipment);
- ✓ revenue in advance or income from operating grants (income subsidies) in the case of receipt and use of funds to finance expenditures (eg purchase of raw materials and materials needed to commence the production process, pay salaries, support for training activities , information).

The accounting operations will be based on the supporting documents drawn up and the contractual clauses established between the parties.

Character quite general national accounting in relation to the specificities of areas that have projects with European financing, uncertainties business and of the financial and dynamic legislation are factors that hinder the achievement of the financial component of the project and force the expertise accounting that you will have to find solutions to a series of unknowns.

### **Important!!!**

- ✓ When foreign currency debt related to certain subsidized works is paid directly by the authorities managing the funds from the amounts representing those grants, without these amounts being passed through the accounts of the company, both the foreign currency debt and the receivable from corresponding grants .
- ✓ If, at the end of the reporting month or reporting period, the debt accounts with suppliers and claims on foreign currency subsidies show a balance, they are valued.
- ✓ In the case of foreign exchange purchases financed from non-reimbursable funds, settled by the economic operators as beneficiaries of these funds, the exchange differences (favorable or unfavorable) are settled with the financing institution if there are clauses for this purpose included in the contracts concluded.

### **3. CONCLUSIONS**

**European funds are not a source of enrichment:** in the long run, money received as a grant does come back to the economy in one way or another; Most programs require recipients to create new jobs, increase their turnover, and do not dispose of their investment irrespective of business success for at least 3 years in exchange for non-refundable aid.

Romania has allocated € 38.9 billion, European funds, for the 2014-2020 programming period, of which approximately € 3 billion is for small and medium-sized enterprises (SMEs).

This money will be accessed by 2022, mainly through the Regional Operational Program, the Competitiveness Operational Program, the National Program for Rural Development and the Operational Program for Fisheries.

In addition, there are non-reimbursable aid programs for SMEs funded by national funds.

Some of the business financing lines have already exhausted others, but are valid or reactivate each year through new call calls.

In conclusion there are various financial aids that institutions of the Romanian state but also the European Union offer in the field of agriculture, environment or situations that involve natural calamities. Individuals, companies, administrations or ONGs can thus benefit from European or Romanian state support if they qualify under certain eligibility conditions.

European funds or subsidies as found in accounting for these operations are useful because they help people who need them in the work they are doing

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