POSSIBILITIES TO PRESENT THE REASSESSMENT SURPLUS CONSIDERING THE NATIONAL AND INTERNATIONAL REFERENCE SYSTEM

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Abstract

Due to the fact that the economic decisions are taken by users based on an entity's financial statements, the incomplete description of the economic phenomena within them as a result of applying different accounting regulations to the same entity, over the same reporting period, may influence their behavior. From this perspective and taking into account the major importance of the full description of the economic phenomena in the financial statements of an entity - in the context of fulfilling the fundamental qualitative characteristic of accurate representation of what the financial information proposes to represent, we considered useful to carry out a study referring to the full disclosure of information about the reassessment surplus that is transferred to reported result both if as the asset is amortized and when the asset is derecognized (sold or disposed of), depending on the treatment stipulated by the entity in its own accounting policies. In this respect, we will perform an analysis to ensure the accurate representation of the economic phenomena related to the reassessment surplus that is transferred to the reported result from the point of view of their completeness and we will address issues related to ensuring full accounting record, depending on the national or international reference.

Keywords: *revaluation, complete information, accounting regulations, national reference, international reference.*

JEL Classification: *M41, M48*

1. Introduction

Financial statements are drawn up and presented by entities around the world, both for internal users and for external users. Although such financial statements may seem similar from one country to another, there are differences that were probably caused by a variety of social, economic and legal factors, as well as the fact that different countries, when establishing national provisions, took into account the needs of different users of financial statements. [4] Furthermore, since all principles are subordinated to the true image as the fundamental objective of accounting, [3] our approach to this material refers to the full description of the economic phenomena – a process that plays a remarkable role in the accurate presentation of information, both in accordance with the Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements (OMFP) and International Financial Reporting Standards. [4] – [5]

In the accounting regulations in Romania, according to the provisions of point 29 and point 30 of OMFP no. 1802/2014 states that: "For financial information to be useful, they must be relevant and represent exactly what they intend to represent. The usefulness of financial information is amplified if they are comparable, verifiable, timely and understandable", and "the fundamental qualitative features are the relevance and exact representation". Moreover, according to the provisions of points 34 and 35 of the same order "The annual financial statements describe economic phenomena in words and figures. In order to be an exact representation, a description must be ***complete***, neutral and error-free", and "a complete description includes all the information needed for a user to understand the described phenomenon, including the necessary explanations". The same elements regarding the full description of the economic phenomena are also found in the Conceptual financial reporting framework developed by the International Accounting Standard Board (IASB).

2. The accounting treatment of the reassessment surplus considering the national and international reference system, which is transferred to the reported result as the reassessed asset is amortized

If the national reference, in this case the OMFP no. 1802/2014 refers to the users of the financial statements without, however, enumerating and presenting their informational needs, the provisions of the Conceptual framework issued by IASB, summarize both the users of the financial statements and their informational needs. [1] In this context, an objective in our scientific approach regarding the full description of the economic phenomena – in the context of fulfilling the fundamental qualitative characteristic to accurately represent what the financial information propose to express - was to study the possibility of accounting for the surplus in revaluation that is transferred to the reported result as the asset is amortized due to the existence of the different accounting regulations provided by the national and international reference, and by means of a practical example, we will highlight the occurrence and presentation of deferred tax recognized on equity, as well as the debts and the tax claims on the deferred tax, as the case may be.

In order to achieve the intended purpose, we consider that an entity compulsorily applies the provisions of OMFP no. 1802/2014, and the International Accounting Standards for informational purposes. Than entity owns a machine purchased on the date of 01.01.2016, for which the following elements are known: the normal use time – 5 years, the net accounting value on 31.12.2016 – 1,000,000 lei, the tax base (tax) – 1,000,000 lei. The asset is reassessed on 31.12.2016 at the fair value of 1,100,000 lei and in Table no. 1 is presented the situation of the machine on 31.12.2016, after reassessment.

Table no. 1 The situation of the machine on 31.12.2016, after reassessment lei

Elements	Tax base	=	Accounting value	–	Taxable amounts	+	Deductible amounts
Machine	1,000,000		1,100,000		100,000		0

Starting with the date of May 1st, 2009, in accordance with the changes in the fiscal treatment of reassessment reserves, according to the Government Emergency Ordinance no. 34/2009, which amends the Fiscal Code, the reassessments made by companies after January 1st, 2004 and recorded in the statutory financial statements are taxed simultaneously with the deduction of the tax amortization, respectively at the time of removing these fixed assets from the administration. Thus, the reassessment surplus – reassessment reserves – is transferred to reported result when the asset is derecognized (sold or disposed of).

However, some of the surplus may also be recognized as the asset is amortized. In this situation, the surplus value transferred to the reported result is equal to the difference between the amortization calculated based on the reassessed value and the amortization calculated based on the initial cost of the asset. Assuming that the entity submitted to our study determined through its own accounting policies that the reassessment surplus is recognized as the asset is amortized, the amount of the reassessment surplus transferred to the reported result is equal to the difference between the amortization calculated based on the reassessment value and the amortization calculated based on the initial cost of the asset (Table no. 2).

Table no. 2 The situation of the reassessment surplus transferred to the reported result as the active is amortized lei

Year	Reassessed value	Amortization calculated based on the reassessed value	Amortization accounting base after reassessment (31.12)	Amortization calculated based on the initial cost	The tax base of the asset (31.12)	Reassessment value
2017	1,100,000	225,000	875,000	200,000	800,000	25,000
2018	1,100,000	225,000	650,000	200,000	600,000	25,000

2019	1,100,000	225,000	425,000	200,000	400,000	25,000
2020	1,100,000	225,000	225,000	200,000	200,000	25,000

This situation implies the following possibilities for registration in accounting, in the light of the accounting regulations provided by the national and international reference:

A1. In the **balance sheet** drawn up according to the provisions of ***OMFP no. 1802/2014***:

- it is recorded the surplus from the machine reassessment for the financial year 2016

2131 "Technological equipment (machinery, equipment and work installations)"	=	**105** "Reassessment reserves"	100,000

- for the financial years 2017, 2018, 2019 and 2020:
  - it is recorded the amortization calculated based on the reassessment value (annually):

6811 "Operating expenses on the amortization of the fixed assets"	=	**2813** "Amortizations of installatons and means of transport"	225,000

  - it is reflected the reassessment surplus transferred to the reported result as the asset is amortized, in the amount of 25.000 lei/year (2017, 2018, 2019, 2020):

105 "Reassessment reserves"	=	**1175** "Reported result representing the surplus made from reassessment reserves"	25,000

A2. In the **balance sheet** drawn up in accordance with **International Accounting Standards**:

- for the financial year 2016:
  - recording the surplus from the machine reassessment:

2131 "Technological equipment (machinery, equipment and work installations)"	=	**105** "Reassessment reserves"	100,000

  - registration of the deferred tax recognized based on own capitals, amounting to 16,000 lei (100,000 lei x 16%):

1034 "Current profit tax and deferred tax"	=	**4412** "Deferred tax"	16,000

- for the financial years 2017, 2018, 2019 and 2020:
  - it is recorded the amortization calculated based on the reassessment value:

6811 "Operating expenses on the amortization of fixed assets"	=	**2813** "Amortizations of installatons and means of transport"	225,000

  - it is recorded the reassessment surplus transferred to the reported result as the asset is amortized, in the amount of 25,000 lei/year (difference between the amortization calculated based on the reassessed amount and the amortization calculated based on the initial cost):

105 "Reassessment reserves"	=	**1175** "Reported result representing the surplus made from reassessment reserves"	25,000

  - annually, at the same time with the deduction of tax amortization, the reassessment surplus is taxed and the decrease of the deferred tax is reflected (25,000 lei x 16%):

1175 " Reported result representing the surplus made from reassessment reserves"	=	**1034** "Current profit tax and deferred tax"	4,000

  - the deferred tax which becomes due is reflected (annually):

4412 "Deferred tax"	=	**792** "Income from deferred tax"	4,000

Comparing the two situations under this objective, namely the accounting treatment of the reassessment surplus that is transferred to the reported result as the asset is amortized, considering the national and international reference system, it is noted that in the **balance sheet** drawn up in accordance with the provisions of the **International Accounting Standards**, the company will record both deferred tax values related to the reassessment reserve for the purchased and reassessed machine and the deferred tax recognized on capital own. Continuing this approach, it is noted that according to the accounting treatment applied by the entity, namely accounting regulations provided by the national or international reference, the full character of the exact representation of the economic phenomena and, moreover, the usefulness of the financial information is questioned.

3. The accounting treatment of the reassessment surplus, in the light of the national and international reference systems, which is transferred to the reported result when the asset is derecognised (sold or disposed of)

Another objective of our scientific approach on the complete description of the economic phenomena - in the context of fulfilling the fundamental qualitative characteristic of accurate representation of what the financial information proposes to express - was to study the possibility to account for the reassessment surplus that is transferred to the reported result when the asset is derecognized (sold or disposed of) due to the existence of the different accounting regulations provided by the national and international reference system, and through the practical example presented above, we will highlight the occurrence and presentation of the deferred tax recognized on account of equities, as well as debts and receivables related to the deferred tax, as the case may be.

Additionally, we believe that the asset is derecognized (sold or disposed of) on the date of 31.12.2020, and the entity subject to our study has determined through its own accounting policies that the reassessment surplus is transferred to the reported result when the asset is derecognized. In this context, the value of the reassessment surplus transferred to the reported result is presented in Table no. 3).

Table no. 3 The situation of the reassessment surplus transferred to the reported result as the active is derecognized (sold or disposed of) lei

Year	Reassessed value	Amortization calculated based on the reassessed value	Amortization accounting base after reassessment (31.12)	Amortization calculated based on the initial cost	The tax base of the asset (31.12)	Surplus from reassessment transferred to the reported result
2017	1,100,000	225,000	875,000	200,000	800,000	25,000
2018	1,100,000	225,000	650,000	200,000	600,000	25,000
2019	1,100,000	225,000	425,000	200,000	400,000	25,000
2020	1,100,000	225,000	225,000	200,000	200,000	25,000

This situation implies the following possibilities for registration in accounting, in the light of the accounting regulations provided by the national and international reference system:

A1. In the **balance sheet** drawn up according to the provisions of OMFP no. 1802/2014:

- for the financial year 2016, the surplus from the reassessment of the equipment is recorded:

2131 "Technical equipment (machinery, equipment and work installations)"	=	**105** "Reassessment reserves"	100,000

- for the financial years 2017, 2018, 2019 and 2020 the amortization calculated based on the reassessed value is recorded:

6811 "Operating expenses on the amortization of fixed assets"	=	**2813** "Amortizations of installatons and means of transport"	225,000

- for the financial year 2020, in addition to the previous operation, the reassessment surplus that is transferred to the reported result is reflected when the asset is derecognised (sold or disposed of) in amount of RON 100,000

105 "Reassessment reserves"	=	**1175** "Reported result representing the surplus made from reassessment reserves"	100,000

A2. In the **balance sheet** drawn up in accordance with **International Accounting Standards**:

- for the financial year 2016:

- recording of the surplus from the machine reassessment:

2131 "Technological equipment (machinery, equipment and work installations)"	=	**105** "Reassessment reserves"	100,000

- the registration of the deferred tax, recognized on own capital account, in amount of 16,000 lei (100,000 lei x 16%):

1034 "Current income tax and deferred tax"	=	**4412** "Deferred tax"	16,000

- in the financial years 2017, 2018, 2019 and 2020 the amortization calculated based on the reassessment value is recorded:

6811 "Operating expenses on the amortization of fixed assets"	=	**2813** "Amortizations of installatons and means of transport"	225,000

- in the financial year 2020, in addition to the previous operation (the registration of the amortization calculated based on the reassessment value), records shall be made:
  - the reassessment surplus that is transferred to the reported result is reflected when the asset is derecognized (sold or disposed of) in amount of RON 100,000:

105 "Reassessment reserves"	=	**1175** "Reported result representing the surplus made from reassessment reserves"	100,000

  - the reassessment surplus transferred to the reported result is taxed when the asset is derecognised (sold or disposed of) and reflects the disminusion of the deferred tax (100,000 x 16%):

1175 "Reported result representing the surplus made from reassessment reserves"	=	**1034** "Current profit tax and deferred tax"	16,000

  - the deferred tax becoming due is reflected when the asset is derecognized (sold or disposed of):

4412 "Deferred tax"	=	**792** "Income from deferred tax"	16,000

Comparing the two situations under this objective, namely the accounting treatment of the reassessment surplus that is transferred to the reported result when the asset is derecognised (sold or disposed of), in the light of the national and international reference system, it is noted that in the **balance sheet** drawn up in accordance with the **International Accounting Standards**, the Company will register both the values related to the deferred tax regarding the reassessement reserve for the purchased and reassessed equipment and the deferred tax recognized on own equities. And in this situation, we observe that depending to the accounting treatment applied by the entity, namely accounting regulations provided by the national or international reference system, the full character of the exact representation of the economic phenomena and implicitly the usefulness of the financial information is questioned.

4. CONCLUSIONS

In the context in which accounting is a technique for collecting, processing and interpreting information on the economic flows [6] in order to be at the service of users, the economic information must be complete, this desideratum being one of the mandatory aspects that must be met by entities to exactly represent what they intended to represent. Regarding the complete character of the exact representation of the economic phenomena, taking into account our scientific approach, we consider that the registration in accounting in a different way, depending on the national or international reference system, of the economic phenomenon regarding the reassessment surplus transferred to the reported result as the asset is amortized, or when the assest is derecognised (sold or disposed of), may question the usefulness of the final financial information obtained in the balance sheet drawn up by the entity in accordance with the provisions of the OMFP no. 1802/2014 depending on the treatment stipulated by the entity in its own accounting policies. In order to eliminate a possible impediment, from this point of view, we believe that both the deferred tax recognized on own equities and the debts and claims related to the deferred tax, as the case may be, should be recognized in the financial statements.

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