

Lumbo Flavio MUCOMO

The Doctoral School of The Bucharest University of Economic Studies

IDENTIFICATION OF NATIONAL AND INTERNATIONAL REGULATIONS ON ACCOUNTING DEPRECIATION OF TANGIBLE FIXED ASSETS

Theoretical
article

Keywords

*Depreciation,
Assets,
Amortization,
The role and importance depreciation*

JEL Classification

M41

Abstract

Amortization is the process of gradual recovery of the financial result in irreversible impairment of assets, charges for the year by including the depreciation of the consideration of the duration determined by the projected operating assets, as amortization.

Impairment occurs as a result of their use within the entity, or due to the passage of time and the amount of this distribution is performed impairment on the value of new products, works, services or activities carried out using these tangible assets. This process of distribution requires that the conclusion of the economic circuit through profit distribution, works, services or activities harnessed to separate or recover from revenue from that part of the value that was included in the operating cost of title reduction in value.

Such amortization is considered separately in depreciation fund which is a power source of the fund's agent economic. Depreciation serves to correct the value of assets to bring to a value closer to reality.

Introduction

The units carrying out economic activities and capital immobilized in tangible and intangible assets subject to depreciation, by use or time, they calculate, will be recorded in the accounts and recover physical and moral wear them to restore equity. These operations are called depreciation of fixed capital. (LEGE Nr. 15 din 24 martie 1994)

Depreciable assets are grouped into three groups:

- Construction;
- Technical installations, vehicles, animals, and plantations;
- Furniture, office equipment, equipment for the protection of human and material values and other tangible assets.

Non-profit legal persons who are entitled by law to do business fixed capital will depreciate only those activities performed for profit or for which they are paying income tax.

Individuals and unincorporated associations, active in order to achieve income and which, by law, are required to track lead single entry will absorb the assets and rights that they hold.

Depreciation of assets leased, rented or leased is calculated by the entity that owns. Subject to depreciation and investments in tangible assets taken with rent, and the investment is recovered by the operator who owns them. (OMFP 1802/2014)

And is subject to amortization component of an item of property that has a significant cost to the total cost of the item. The entity depreciates separately each component of this kind. They can be grouped in determining the depreciation charge when they share useful life and depreciation method.

Also, if the entity applied separately calculation amortization over a significant component within a property, it must depreciate separately the remainder of the item.

The depreciation charge to be recognized in profit or loss, except the situation in which future economic benefits embodied in an asset are absorbed by producing another asset. In other words, the amortization that is part of the cost of the other asset is therefore included in the carrying amount of the asset. (IAS 16, 2010)

Depreciation of an asset begins when it is in the location and condition necessary for functioning in the manner intended by management. The amortization process ceases when an asset is passed in property and equipment for sale or when the asset was fully amortized.

The difference between the size recalculated amortization of property and reassessment of its size before the revaluation shall be regularized on account of revaluation reserves.

The surplus from the revaluation of tangible assets can not increase the share capital. He is booked to reserves as a component of equity or pass measure of the use of property or removing them from the list of such retained earnings representing the revaluation reserve surplus.

In accordance with the regulations in renewable sources of accounting law in our country, the target of the tangible and intangible assets amortization.

From this rule are excepted land because it is considered by use not suffer irreversible impairment of their value. But land improvements are amortized over a period of 10 years.

1. The role and importance depreciation

Amortization is the process of gradual recovery of the financial result in irreversible impairment of assets, charges for the year by including the depreciation of the consideration of the duration determined by the projected operating assets, as amortization. (Matis, 2010)

Controllable resource is derived from the past producing future benefits. (Ristea, 2001)

Impairment occurs as a result of their use affect the entity, or due to the passage of time and the amount of this distribution is performed impairment on the value of new products, works, services or activities carried out using these tangible assets.

This process of distribution requires that the conclusion of the economic circuit through profit distribution, works, services or activities harnessed to separate or recover from revenue from that part of the value that was included in the operating cost of title reduction in value.

Such amortization is considered separately in depreciation fund which is a power source of the fund's agent economic. Pentru determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 Impairment of Assets.

Depreciation is therefore finding accounting loss in value suffered by assets as a result of consuming their economic process during its useful life, or as a result of holding their assets, depreciation over time, wear and tear (generated the technical and mechanical operation and the influence of natural factors) or obsolescence (caused by the rapid evolution of technology, the emergence of new higher-performance machines).

Depreciation serves to correct the value of assets to bring to a value closer to reality.

Depreciation can be seen from many points of view:

- In terms of heritage: amortization accounting is a process of finding the loss of value suffered by assets as a result of use, technical progress and action environmental factors or other causes of irreversible effects;
- In terms cotabil: amortization expenses consist of the year and thus affecting the result thereof to the value depreciation of property suffered during exercise;
- From a financial standpoint, depreciation amortization presupposes the property with receipt of the price of production sold or services provided for the recovery of invested capital;
- In terms of the cash flow, depreciation envisages transition adequate amounts of depreciation funds for rebuilding capital to finance growth and consumption in the future.

Depreciation is important in the investment process within an entity deoarce depreciation expenses reduce

the tax base by reducing the volume of state tax due. This creates opportunities to increase self-financing.

By damping mechanism is recovered in stages in the cycle of exploitation initial investment, thus becoming a self-financing resource.

For the correct depreciation, should be considered a realistic assessment of tangible assets. Overvaluing or undervaluing their constituirea lead to a depreciation fund higher or lower than replacement needs of working means which has a distorting effect on costs and profit their actual size. To avoid this, attention should be paid to value for calculating depreciation.

2. Depreciable amount and depreciation period

Amortization of tangible assets is calculated taking into account the depreciable amount and duration of use.

The depreciable amount is the difference between the value of the tangible assets in the enterprise and estimated residual value for the asset.

The residual value of an asset is the estimated amount that an entity could obtain from the disposal of an asset after deducting the estimated costs related to disposal at end of useful life. In practice, most often, this value is nesemnificativă and not taken into account when calculating the depreciable amount. (Matis, 2010)

The residual value may increase to a value equal to or greater than the carrying amount of the asset. In this case, the depreciation are equal until the residual value decreases.

Depreciation is recognized even if the fair value of the asset exceeds its carrying amount, as long as no residual value depășește its carrying amount.

The amortization period or duration of use is of two kinds:

- The normal functioning, which is established by government decision and is determined by several criteria;

- The useful life is the period in which the entity expects to use in its work that immobilize or the number of production units expected to be obtained by operation of the asset subject to amortization.

There are situations where differences between the two sizes, and in this case, recognizing redemption of the calculated according to the normal functioning.

Technical or commercial obsolescence and physical wear and tear of the asset even when not used, have the effect of reducing future economic benefits that could be obtained from the asset.

Therefore, to determine the useful life of an asset are considered the following factors: (IAS 16, 2010)

- intended use of an asset;
- foreseen physical wear, which depends on operational factors such as the number of shifts for which the asset will be use features and repair program maintenance, and repair and maintenance of the asset while not in use;
- technical or commercial obsolescence arising from changes or improvements in production;

- legal or similar limits on the use of the asset;

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. This value, together with the useful life should be reviewed at each financial year-end.

3. Elements for calculating amortization and depreciation methods

Depreciation is determined by applying the depreciation allowance on the input value of tangible assets. Depreciation of tangible assets is calculated based on an amortization from the date of their operation until the full recovery of their input, according to useful lives and conditions of use. (Nicolaescu & Gomoi, 2006)

The criteria used to assess amortization are:

- The period during which it is estimated that the company will use the asset subject to depreciation;
- The output obtained, ie the number of units of products or similar units that are expected to be obtained by using enterprise asset;
- The interest rate.

The volume of activity is used in special buildings, mines, quarries, mining solid minerals daily for the duration of which is limited to the duration of use reserves that may not receive other uses after use.

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The interest rate is the criteria that apply to land used for business obtained through acts of sale.

In addition to these criteria, amortization includes a series of parameters such as:

- Date of commencement of depreciation calculation;
- The amount subject to amortization;
- Depreciation regime.

The starting date of depreciation calculation corresponds to the date of commissioning of the asset.

This date refers to:

- completion date technological tests for intangible production requiring such evidence;
- fitting end date for property, for assembly does not require the technological samples;
- the acquisition date for assets that do not require installation or technological tests.

The amount subject to depreciation can be represented by the acquisition cost, production cost, current value, the amount of intake. This value is also referred input value or historical cost.

To calculate the depreciation of fixed capital in tangible assets must be known accurately following three elements:

- The carrying amount;
- Duration of use;
- Amortized regime.

The carrying amount of an asset subject to depreciation is amortized value (cost or historical cost value substituted in the financial statements).

Duration of use is the period in which an asset is expected to be available for use by an entity or the number of units of products or similar units that are expected to be obtained by using asset entity.

Times normal use in the calculation of depreciation must be taken to coincide with the useful.

Amortized regime should reflect how the economic benefits of the asset are consumed by the enterprise. The regime of depreciation or amortization methods are part of integrated accounting and taxation relations.

Current accounting theory and practice through many depreciation methods. Choosing depreciation policy puts the company in compliance with the interest tax depreciation because any increase in depreciation compared to what is considered taxable income resulting in decreased economic depreciation, amortization and any regime in the state reduces the cash flow.

Therefore it is considered that the only criterion to be considered in choosing one method or another is accurate appreciation of the degree of impairment of the asset in the year. It retains, however, that a method should be maintained once adopted without taking into account the implications on the profitability of the company or other fiscal.

Depreciates tangible entities using one of the following regimens amortization:

Linear depreciation - is achieved by the inclusion in operating expenses of uniform fixed amounts determined in proportion to the number of years of the normal length of use of a tangible asset. (Matis D., 2010)

It is calculated using the following formula:

Value = annual amortization of amortized x linear depreciation rate applied. It is mandatory for buildings;

- Can apply to any other asset;
- Amortization of intangible assets is applied;
- Apply to packaging or containers moving between taxpayers and customers;
- Is determined by applying the straight line depreciation of the coming fiscal value in the asset depreciable assets of the taxpayer.

It is considered to be closest to the actual depreciation of property and most economically justified. This method is simple to apply and is the most used due to uniformity and cost expenditures year over time.

Digressive amortization -it is to multiply line depreciation allowance by a coefficient (k), established by the normal functioning (Dnf). Apply to technological equipment, machines, tools and installations, computers and their peripheral equipment;

- can be applied patents;
- is calculated by depreciation in the first year of operation of more than 50 % of the tax from the taxpayer enters into a heritage asset , and in subsequent years by calculating the straight line amortization related to the remaining duration of normal use by reporting the remaining depreciation of

the asset to the remaining normal period of use thereof.

Accelerated depreciation- is the inclusion of depreciation in the first year of operation, the operating expenses of amortization of up to 50% of the value of the asset.

- Apply to technological equipment, machines, tools and installations, computers and their peripheral equipment;

- Could be applied to patents;

- Is calculated by depreciation in the first year of operation of more than 50% of the fiscal value of the entry Heritage taxpayer of the asset, and in subsequent years by calculating the straight line amortization related to normal life remaining by reporting the remaining amortization the asset to the normal duration of use remained the same.

Regarding the discount rate used, it must be a preimpozitare rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At the time of estimating the recoverable amount of an asset it must be based on values of interest rates prevailing at the time given that the decision to use the asset is taken at that time and should take into account the conditions then existing.

The discount rate should be a rate that reflects current assessments of the value - for money and the risks specific to the asset. This represents the return required by investors when choosing an optimal investment to generate cash flows similar to those generated by the asset in terms of risk, magnitude and timing with those that the entity expects to derive from the asset.

As a starting point in estimating the discount rate can take into account the following rates:

- Weighted average cost of capital (WACC);
- The marginal lending rate of the enterprise;
- Other lending rates on the market.

Most often choose as a starting point is the entity's incremental borrowing rate is the weighted average cost of capital. The weighted average cost of capital represents the cumulative current cost of capital to increase the present value and is based on estimated revenue expected by investors.

For determining the rate equity can use a rate equal to:

- + Annual dividend growth rate of dividends
- The value of shares

To determine this rate is necessary to know:

- Dividend from the latest year (usually known from the annual financial statements);
- Average fair value of the share in the previous year (in case of companies listed value of shares / shares can be determined by dividing the equity value in the balance sheet at the number of shares or issued);
- Increasing the dividend expected from time to time (the dividend policy of the company). If you can not reliably estimate the growth rate does not consider. The second component of the weighted average cost of capital is marginal rate on the debt. This represents

the marginal cost necessary to obtain additional capital.

Annual depreciation for subsequent financial year is calculated remaining amortized by the linear regime, in relation to the number of years of use left. Since amortization calculated to be correlated with the use of the asset and, in rare cases as a tangible asset is consumed in the first year at the rate of up to 50%, resulting from accelerated depreciation method is less used for accounting purposes.

The depreciation method used should reflect the way in which the asset's future economic benefits are expected to be consumed by the entity. The method should be reviewed at least at each financial year-end and, if there is a significant change in the expected pattern of consumption is the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pace.

The amortization method is applied consistently for all assets of the same nature and having identical conditions of use, depending on the accounting policy adopted.

In economic literature there are other depreciation methods, but currently not applicable in our country.

Buildings are depreciated on a straight only and technological equipment (machinery, tools and equipment, computers and peripheral equipment) depreciated by any of the depreciation methods presented. For other tangible assets can apply linear or diminishing balance method of amortization.

Regardless of the depreciation method used, depreciation of tangible begins next month corresponding date of entry into heritage.

In addition to the irreversible impairments, subject to depreciation, tangible assets may suffer (rarely) and irreversible impairment of temporary nature. Reversible impairments are found at the end of the exercise, by comparing the input current value of tangible assets, and subject to adjustments for depreciation.

In the current economic environment in the context of an unstable, it is necessary for any company to manage their assets more efficiently and effectively, so that to survive in the market and to achieve its objectives.

Accounting as a science plays a particularly important role because through its prism, reflects "true" economic and financial situation of the company without offering solutions and without getting involved in decision making.

This is absolutely necessary, but not sufficient to optimize results. Accounting for financial management enterprise with complementary tools are indispensable in the business entity.

Before starting any activity, the entrepreneur must be well informed, attentive to market needs, in determining risk investment opportunities it has to due course of business. This calls from the outset, investing in tangible fixed assets necessary basis for initiating economic activity.

Thus, tangible assets are held by a legal person, to be used in their production of goods or services, for rental to others or to be used for administrative purposes.

Conclusions

We conclude that the objective evidence of tangible assets are: knowledge of technical details about fixed assets owned heritage, learn the value of tracking assets and software amortization, correct expensing the straight fixed assets, knowledge asset allocation fixed centers cost and ensuring tangible inventory.

Accounting and management rules are important for each entity, not just as an economic agent. Everyone must have a clear record of capital immobilized in tangible fixed assets, stocks, other investments and what are the possibilities of his recovery, increase business profitability, mitigate risks, creating profit.

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