European Journal of Accounting, Finance & Business

Volume **VII**/2018 ISSN 2344-102X
Issue (XVII) / **June** 2018 ISSN-L 2344-102X

COMPARATIVE ASPECTS REGARDING THE RECOGNITION OF TANGIBLE FIXED ASSETS ACCORDING TO NATIONAL AND INTERNATIONAL REGULATIONS

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Abstract

The present paper aims to comparatively present the criteria for the recognition of fixed tangible assets in the accounting of public institutions in Romania, in the context of the implementation of international public sector accounting standards (IPSAS) in national legislation. The paper analyses the extent to which the Public Sector Accounting Standard - IPSAS 17, incidental to the theme, is implemented in the national law in terms of recognition of fixed assets, initial costs and subsequent costs.

Keyword: fixed assets, recognition, assessment, convergence, IPSAS.

JEL Classification: H83, M41

I. Introduction

The future of public accounting in Romania is predictable. This will overlap with the implementation of international regulations in Romanian legislation, the aim being to create a common language of accounting for public institutions at international level. In this respect, the main objective of this paper is to analyse the degree of convergence of national and international regulations regarding the criteria for recognizing and evaluating fixed assets in the accounting reports of public institutions.

Under this objective the paper analyses in a comparative manner the two accounting referentials - the international and the national ones - in terms of tangible assets/ fixed assets.

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Volume **VII**/2018 ISSN 2344-102X
Issue (XVII) / **June** 2018 ISSN-L 2344-102X

II. Comparative aspects regarding the recognition of tangible assets according to IPSAS 17 and O.M.F.P no. 1917/2005

The paper analyses in a comparative manner the extent to which the legislation on tangible assets is implemented in national legislation. To meet this goal, in Table 1 are presented the analysed elements from the perspective of the two referential (IPSAS 17 and O.M.F.P no.1917/2005), as follows:

Table 1 - Comparative aspects regarding the recognition of tangible assets

Analysed elements	International regulations	National regulations	Identification of IPSAS 17 concepts existing in O.M.F.P. no. 1917/2005
Recognition of the fixed assets	The cost of an element of tangible assets should be recognized as an asset if and only if: a) "It is probable that the future economic benefits or service potential associated with the item will come to the entity". b) "The cost or fair value of the item can be measured reliably". IPSAS 17 specifies that although replacement parts and service equipment are "recognized in surplus or in deficit when consumed, in cases where major spare parts and safety equipment are used over several periods, they are considered to be tangible assets". "Also, if spare parts and service equipment can only be used in connection with an element of tangible asset, they are accounted for as tangible assets". Individually insignificant elements - such as "books in a library, computer peripherals, and small items of equipment - could be aggregated and subjected to criteria for aggregate value".	Fixed tangible assets are recorded at the time of the transfer of the right of ownership for those purchased for consideration or at the time of the preparation of the documents for those built or produced by the institution, respectively received free of charge.	**Implicit**

Source: The author's own processing

III. Comparative aspects regarding the initial costs

The initial costs of a fixed tangible asset according to international and national regulations can be defined as follows:

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Issue (XVII) / **June** 2018 ISSN-L 2344-102X

Table 2 - Comparative aspects regarding the initial costs according to international and national regulations

Analysed elements	International regulations	National regulations	Identification of IPSAS 17 concepts existing in O.M.F.P. no. 1917/2005
Initial costs	"The Standard specifies that there are fixed assets that may be imposed for safety or environmental reasons". "Although their acquisition does not directly determine the increase in future economic benefits or the service potential of any existing element of tangible assets, it may be necessary for an entity to obtain future or potential economic benefits from other assets". Such elements of tangible assets meet the conditions to be recognized "as assets because they enable an entity to derive from the related assets future or potential service benefits in addition to what would be obtained if those assets would not have been acquired". An example of this is the improvement of the automatic fire-fighting system by a hospital imposed by the fire safety regulations. The entity recognizes these improvements as assets because without them the hospital cannot operate according to the regulations.	**-**	**Implicit**

Source: The author's own processing

IV. Comparative aspects regarding the subsequent costs

Table 4 presents comparative aspects regarding the consequent costs in the view of International and national regulations.

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Table 4 - Comparative aspects regarding the consequent costs

Analysed elements	International regulations	National regulations	Identification of IPSAS 17 concepts existing in O.M.F.P. no. 1917/2005
Subsequent costs	According to the recognition principle of IPSAS 17, an entity does not recognize in the accounting value of an element of tangible assets the cost of the day-to-day maintenance of that element. These costs are recognized as surplus or deficit as they are incurred. Daily maintenance costs are primarily labour and consumable costs and "may include the cost of small parts". Another situation is that of components of tangible assets that "may require replacement at regular intervals". According to the principle of recognition of tangible assets, an entity "recognises in the accounting value of an element of tangible assets the cost of the re placed part of such an item when that cost is incurred if the recognition criteria are met". The accounting value of the replaced parts is recognised according to the recognition provisions of this standard.	Subsequent expenditures incurred with a tangible fixed asset after acquisition, completion or free of charge receipt, which are intended to maintain the initially established functional parameters, shall be recorded in the expense accounts when incurred. Subsequent expenditures that have the effect of improving performance over initially established functional parameters or increasing useful life and leading to "future economic benefits will increase the cost of the fixed asset".	**Explicit, implicit**

Source: The author's own processing

V. Evaluation on recognition - comparative aspects

In Table 5 is presented comparative aspects of evaluation on the recognition of subsequent costs.

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Table 5 - Evaluation on recognition - comparative aspects

Analysed elements	International regulations	National regulations	Identification of IPSAS 17 concepts existing in O.M.F.P. no. 1917/2005
Evaluation on recognition	An element of tangible assets" that qualifies for recognition as an asset should be measured at its cost". "When an asset is acquired from a transaction other than an exchange, its cost will be measured at its fair value at the acquisition date". Examples of assets acquired from a transaction other than an exchange: a land representing the free contribution or a developer's nominal value to allow the local government to create parks, roads and access routes to the developed project; an asset under seizure. "Under these circumstances, the cost of the item is its fair value from the date of acquisition". *Cost items of a tangible asset:* • "Its purchase price, including import taxes and irrecoverable purchase taxes, after deduction of trade discounts and rebates". • "Any costs directly attributable to bringing the asset to its place and condition so that it can function as intended by the management". • "Initial estimate of the costs of disassembling and removing the item and restoring the site where it is located, the obligation the entity endures in acquiring the item or as a consequence of using the item for a period of time for purposes other than inventory during that period".	Fixed assets must be valued at: • the purchase price, for those purchased for consideration; • the cost of production, for those built or produced by the institution; • fair value, for those acquired free of charge. *Purchase costs include: purchase price, import charges and other taxes (excluding those that the public institution can recover from tax authorities), transport expenses, handling expenses and other expenses that can be directly attributable to the acquisition of the respective goods*.	**Explicit**

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Table 5-*Cont.*

Analysed elements	**International regulations**	**National regulations**	**Identification of IPSAS 17 concepts existing in O.M.F.P. no. 1917/2005**
	Examples of costs that are not costs of an item of tangible assets are: • the costs of opening a new facility; • the costs of introducing a new product or service (including advertising and promotional costs); • the costs of doing business in a new place or with new class of clients (including staff training costs); and • Administrative and other overhead costs. "The standard specifies that recognition of costs in the carrying amount of an item of tangible assets cease when the item is at the site and condition required to operate in the manner of management desired". *Therefore, the costs incurred for the use and reinstatement of an "item are not included in the carrying amount of that item".* *In this respect, there are exemplified costs that are not included in the accounting value of an item of tangible assets:* • **"**the costs incurred when an item capable of operating in the desired driving mode still needs to be brought to its working condition or operated below its maximum capacity"; • "initial operating losses, such as those incurred in increasing the demand for the product made by that item"; and •" the costs of relocating or reorganizing part or all of the entity's activities".	Sales reductions granted by the supplier are not part of the purchase cost. *The cost of production includes: the cost of purchasing raw materials and consumables and the production costs directly attributable to the good.* In the case of fixed assets, the cost of production includes direct costs related to production (direct materials, energy consumed for technological purposes, direct labour and other direct production costs), as well as the share of indirect production costs reasonably as being connected to their manufacturing.	

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Table 5- *Cont.*

Analysed elements	**International regulations**	**National regulations**	**Identification of IPSAS 17 concepts existing in O.M.F.P. no. 1917/2005**
	According to the standard, some activities, although carried out for the" construction or development of a tangible assets item, are not required to bring the item to the site and condition necessary for the item to function in the desired manner". These unforeseen activities may occur before or after construction or development activities and their income and expenses are recognized in surplus or deficit and are included in the respective classifications of income and expense. *Regarding the cost of an asset built in its own direction*," it is determined by using the same principles as for an acquired asset". "If an entity produces similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale". "Therefore, any domestic surpluses are eliminated from obtaining such costs". *"Similarly, the cost of unusual values of material, labour or other resources losses incurred to build an asset on its own is not included in the cost of the asset".*	*Fair value* is the amount for which an asset could be freely exchanged between two knowledgeable parties in a transaction with an objectively determined price. *For goods with market value, the fair value is the same as the market value. The fair value is determined on the basis of the report drawn up by the specialists and with the approval of the authorizing officer, or on the basis of evaluations carried out, as a rule, by authorized assessors*	

Source: The author's own processing

VI. Conclusions

From the above we can state from the beginning that there are sufficient differences between the national and international legislation regarding the fixed assets and the tangible assets, respectively. A first distinction would be represented by the very

Volume **VII**/2018 ISSN 2344-102X
Issue (XVII) / **June** 2018 ISSN-L 2344-102X

definition of the concept, if in international law we are talking about tangible assets, the Romanian legislation conceptually used is that of fixed assets. With regard to cost assessment, national accounting rules exclude commercial reductions granted by the supplier and are therefore not part of the cost of acquisition. According to international law, in terms of assessment on recognition, the costs incurred for the use and re-commissioning of an item are not included in the accounting value of that item. Similarly, the cost of unusual losses of material, labour or other resources incurred to building an asset on its own is not included in the cost of the asset.

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