International Conference KNOWLEDGE-BASED ORGANIZATION
Vol. XXVI No 2 2020

EVALUATION OF TANGIBLE FIXED ASSETS

Sebastian FLOȘTOIU, Marius MILANDRU

"Nicolae Bălcescu" Land Forces Academy, Sibiu, Romania
flostoiu.sebastian@gmail.com

Abstract: *The notion of tangible fixed assets can be interpreted as the heart, center or engine of an enterprise because it is expected to give rise to future economic benefits, namely, to contribute, both directly and indirectly, to the realization of the cash flows of investment activity. The importance of these fixed assets is clear from the fact that no company will be able to carry on its activity if it does not have tangible fixed assets in its assets, regardless of how they are purchased, for example: by acquisition, by building in its own right or by donation. The purpose of this article is to present the accounting treatment for the recognition, accounting, valuation and reassessment of these assets within an enterprise. The reason for choosing this issue was to highlight the importance that these tangible assets have at the level of each economic company. Certainly, these assets cannot be deprived of the assets of any economic agent because, in my opinion, they are the main pillar in any business.*

Keywords: tangible fixed assets, recognition, registration, evaluation

1. Introduction

The fundamental objective of accounting is to provide information on the financial position and performance a company has that are presented in the financial statements according to Romanian regulations.
The accounting legislation in our country is based on a set of rules and regulations that we have, both at the level of the Directive IV of the European Economic Community and the International Financial Reporting Standards for the financial statements of a company to fit in as best as possible with all the requirements of the information users.
The concept of asset refers to those goods that an economic operator owns, several financial years and uses them either to produce other goods or to provide services or for administrative purposes. These goods can be used in several manufacturing cycles because they are gradually consumed. Assets fall into two main categories: fixed assets and current assets. In their turn, the first category of assets specified above consists of: intangible, tangible and financial assets.

2. Definition, recognition and classification of tangible assets

The Romanian accounting regulations consider tangible fixed assets as those assets that simultaneously meet the following conditions: they are in the corporate assets of an entity for the purpose of manufacturing goods, providing services, renting or for administrative purposes and are controlled by the entity for the purpose of their use for a period exceeding 12 months [1].
The recognition is the method by which items meeting the recognition criteria are included in the financial statements.
Recognition in accounting of fixed assets is based on two methods of evaluation:

DOI: 10.2478/kbo-2020-0049

- **historical cost**, from which depreciation and any cumulative loss is reduced;
- **revalued value**: fair value reduced by the depreciation and accumulated losses.

International Financial Reporting Standards highlight that the asset will be recognized as a tangible asset only when it meets the conditions for their recognition, namely:

- future economic benefits will be generated by tangible assets;
- its cost can be reliably determined [2].

In the situation where, in the composition of an asset, there are elements that have different life spans, the standards suggest their separate accounting. An example of this can be a machine, which is owned by a company and is recognized in its accounting as a tangible fixed asset. If the engine has a different life span than the machine, then the company must separately recognize the assets in accordance with the regulations in force.

The assets that are obtained by the entity through a lease agreement, although they meet the conditions for recognition, will not be recorded in the balance sheet. Accounting regulations refer to tangible fixed assets as assets owned, which leads us to the substance over form principle which allows us to record in the accounting the assets obtained through financial leasing.

Table 2.1 Classification of tangible assets

Source: OMFP no. 1802/29.12.2014 for the approval of the accounting regulations on the individual annual financial statements and consolidated annual statements

Land is divided into two categories: land and land development. The land does not have a useful life span and for this reason will not undergo the process of depreciation. Land development is land improvement and is subject to depreciation because the useful life span can be estimated.

Constructions refer to those buildings that are part of the entity's assets either through acquisition from the suppliers of fixed assets or through production under its own direction. They are subject to depreciation.

In accounting, although a land and a building can be purchased together, they must be presented separately according to the cost of purchase of each. This reasoning is used because the land can be exploited by the entity for an unlimited period of time and thus it is not depreciated while the building is depreciated.

The value by which the depreciation of the building will be calculated cannot be influenced by the increase in the value of the land when it is reevaluated.

Technical installations and machinery include fixed assets such as: means of transport, machinery and working installations, measuring, controlling and adjusting devices.

Other installations, machinery and furniture category includes the following: office furniture and appliances.

Advances and tangible fixed assets in execution refer to those fixed assets that have not reached the final stage and also to their related disposals [3].

The real estate investment is represented by those goods, usually it is either a land or a construction, which belong to an entity either to achieve income from renting them, or to increase their value or can be owned for both purposes. The following are considered real estate investments:

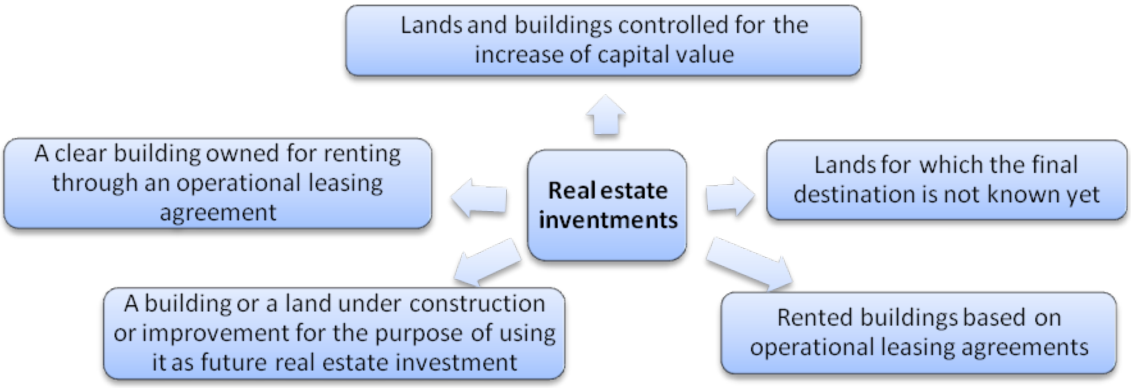

Figure 2.2: Real estate investments
Source: OMFP no. 1802/29.12.2014 for the approval of the accounting regulations on the individual annual financial statements and consolidated annual statements, art. 198

Within a company, a building, for example, can have two destinations. A part of the building is intended for rent and the other part is used for administrative purposes. In this situation, professional reasoning is needed to determine exactly whether the property is a tangible asset or a real estate investment.

International standards highlight that investments will be presented separately in the balance sheet and that the company can choose to evaluate them either at cost or at their reevaluated value. If the second method of evaluation is chosen, the company is obliged to periodically evaluate the real estate investments at their fair value. A deviation from this rule may occur if for one of these investments there is no active market [4].

With regard to these investments, we can note that there are differences between national legislation and international standards.

- a first difference between the two is highlighted by the way of reevaluation. If a company applies accounting in accordance with international standards, at the time of the reevaluation, both the pluses and the minuses will affect its profit and loss account and will not affect in any way the reserves in the reevaluation but if the entity chooses to apply accounting in accordance with national law, the reevaluation will be carried out in exactly the same manner as for tangible assets.
- the second difference is evidenced by the fact that the national law says that a company can present investments separately but they will be part of the entity's tangible assets;
- the third difference occurs when the entity wants to carry out the transfer of investments. International standards highlight the fact that the transfer from real estate investment to stock is accepted thing that cannot be achieved when the company keeps its accounting records according to the national law which does not allow the transfer between two different categories of assets.

IFRS 5 Fixed assets owned for sale refers to those assets whose value will be recoverable at the moment of sale and not through their use. The date on which an asset can be recognized as owned for the purpose of sale shall be called the classification date and the following conditions shall be met:

- the asset must be available for immediate sale;
- the probability of the sale taking place is high, for this purpose a sales plan is drawn up and a program is launched through which a buyer will be found with the aim of finalizing the plan [5].

Romanian regulations do not recognize this category of assets owned for sale so the assets will remain in the category of tangible fixed assets until the time of their sale.

3. Evaluation and reevaluation of tangible assets

Evaluation is the way in which values will be assigned to the assets structures following their recognition in the financial statements.

The tangible assets are evaluated: at entry (value determined at the time of first recognition), at the time of termination of recognition, at the time of inventory and at the end of the financial year [6].

3.1 Evaluation at the time of entry into the corporate assets

At the time of entry into the corporate assets, these are valued and accounted for at the entry value or book value and take the following forms: cost of production, cost of acquisition, fair value and contribution value.

The acquisition cost is the amount that a company pays for an asset it has acquired from third parties. It includes the following elements: the sale price, minus commercial discounts received, taxes that cannot be recovered from tax bodies (customs duties, excise duties, etc., customs commissions, notary fees, expenses that can be directly assigned to tangible assets [7].

The cost of production occurs when fixed assets are obtained from own production.

The cost of production includes the following: direct expenses related to production (raw material expenses, direct labor expenses, etc.), the cost of design and the share of indirect expenses related to the production of tangible assets. The cost of production may also include interest on a long-term or short-term bank loan linked to the production period [8].

Fair value is the amount at which an asset can be exchanged between two parties in a well-priced transaction [9].

As a result of the acquisition or procurement of a fixed asset, subsequent expenditure may arise for the purpose of maintaining the proper functioning of the fixed asset or for the purpose of modernizing the fixed asset, such as:

- Increase of useful life;
- Modernization of certain components of fixed assets;
- It helps to reduce operating costs [10].

3.2. Evaluation at exiting the corporate assets

The discharge from management of fixed assets will be carried out at their input value also known as historical cost.

A tangible asset may leave the corporate assets when it is either disposed of or when future economic benefits are no longer obtained from it.

At the time of the sale of the asset there will be income from the disposal of the assets, which will affect the result of the financial year.

If the fixed asset has not been fully amortized, an expense will result from the disposal of the assets.

3.3. Evaluation at the time of inventory

Inventory is the way in which an entity examines the existence of corporate assets, liabilities and equity items in both value and quantitative-value. The evaluation shall be made by means of the inventory value at the end of the financial year.

The inventory value of tangible fixed assets is determined according to certain criteria, namely: the condition of the asset, its price and usefulness [11].

The purpose of the inventory is to present as accurate as possible a picture of the items that an entity owns. The inventory shall be carried out at least once during a financial year. Inventories may also be made of assets in execution. Each tangible asset will be evaluated individually [12].

International standards state that assets will be recorded at a less value than their recoverable value. Where the book value will be higher than the recoverable value, a depreciation shall be accounted in the event that the asset will be recognized in the financial statements at its recoverable value

3.4. Evaluation at the end of the financial year

The evaluation at the balance sheet date is made at the balance sheet value for the purposes of the financial statements. To determine it, we need to compare *the net book value with the inventory value.*

The result of the comparison between the two values helps us to find either:

- an addition of value, which due to the principle of prudence will not be recognized in accounting, thus resulting that the balance sheet value will be equal to the net book value;
- a value minus, which will be recorded in the accounting as a depreciation in the case of an irreversible loss of value, or as an adjustment in the case of a reversible loss of value.

The book value, according to international standards, can be established according to two models, namely:

Cost - based model	Reevaluation - based model
The fixed asset shall be recorded in the accounting at its entry value except the accumulated redemption and depreciation.	The fixed asset will be recorded in the accounts at its revalued value, which will represent fair value at the time of reevaluation except the accumulated redemption and depreciation.

Figure 3.4.1: Models for the evaluation of fixed assets in the balance sheet
Source: International Accounting Standard 16 Tangible assets

3.5. Reevaluation of tangible assets

At the end of the financial year, fixed assets are presented in the financial statements on the basis of the cost of production accounting or cost of production principle but may be presented in the financial statements after their reevaluation at fair value. The depreciation of the revalued assets will be shown in the accounting starting the following financial year.

Where, after the full depreciation of an asset, it is found that it is still usable, the entity may choose to revalue it and will be shown on the balance sheet at the revalued value. Reevaluations shall be carried out on a regular basis in order to avoid large differences between book value and fair value. Following the reevaluation of tangible assets, details of the revalued assets, the method chosen and the elements of the amended financial statements shall be presented in the explanatory notes.

Conclusions

In conclusion, in this article we wanted to emphasize the importance and usefulness of tangible fixed assets, which we can say is one of the main pillars in the formation and operation of a business. An economic entity, regardless of its object of activity, cannot carry out economic activities without the significant contribution of tangible fixed assets. If we think of an company which has as its object of activity the transport of goods, it cannot provide services in this respect without owning a certain number of trucks or, if we think of a factory regardless of the product that is manufactured within it, production cannot be carried out without the equipment that is necessary in this manufacturing process.

From the two examples one can very easily understand the usefulness of tangible assets. We also wanted to draw a parallel between the existing accounting framework at national level and the existing one at international level on accounting policies and treatments on accounting fixed assets.

Taking into consideration the importance of long-term assets in the business, we believe that the manner and quality of evaluation in the four instances shown above (the evaluation at the inventory inflow, the evaluation at the inventory outflow and the evaluation at the date of the balance sheet), it is essential to present a true picture of the economic entity's financial position and its performance.

References

[1] OMFP nr. 1802/29.12.2014 pentru aprobarea *Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile anuale consolidate*, art. 190, aln 1.

[2] Coord. Ristea M., Morariu A., Bavita I., Nisulescu I., *Contabilitatea financiară a întreprinderii*, Ed. Universitară, București, 2004, p.127.

[3] Lungu C., Caraiani C., Dascălu Cornelia, Introducere în contabilitate, Editura ASE, București, 2013, p.42-43.

[4] Răpcencu C., Stanciu L., *Ghid practice privind imobilizările corporale* 2016, p. 69.

[5] Standardul Internațional de Raportare Financiară 5 *Active imobilizate deținute în vederea vânzării.*

[6] Coord. Ristea M., Morariu A., Bavita I., Nisulescu I., *Contabilitatea financiară a întreprinderii,* Ed. Universitară, București, 2004, p.127.

[7] OMFP nr. 1802/29.12.2014 pentru aprobarea *Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile anuale consolidate*, Secțiunea 1.2, art. 8, alin. 6.

[8] Răpcencu C., Stanciu L., Ghid practic privind imobilizările corporale 2016, p. 39.

[9] Coord. Ristea M., Morariu A., Bavita I., Nisulescu I., Contabilitatea financiară a întreprinderii, Ed. Universitară, București, 2004, p.128.

[10] OMFP nr. 1802/29.12.2014 pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile anuale consolidate, art 227.

[11] ORDIN Nr. 2861 din 9 octombrie 2009 pentrua probarea Normelor privind organizarea și efectuarea inventarierii elementelor de natura activelor, datoriilor și capitalurilor proprii, Anexa 1, art. 1.

[12] OMFP nr. 1802/29.12.2014 pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile anuale consolidate, art. 85, aln. 1.