THE PARALLEL BETWEEN NATIONAL REGULATION AND INTERNATIONAL STANDARD FOR ACCOUNTING TREATMENT FOR PROPERTY, PLANT AND EQUIPMENT

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Abstract:
The accelerating process of capital free market's development and also the accentuation of the globalization phenomenon have imposed the continuous development of the Romanian accounting system. The goal was to fully harmonize the Romanian accounting with the European Directives and with the International Accounting Standards. In this paper I propose to discuss issues related to the similarities and differences between national the regulation according to OMFP 3055/2009 and IAS 16 standard for property, plant and equipment.

Key words: *accounting treatment, national regulation, IAS 16 standard, similarities, differences, parallel*

JEL classification: *H32, M41, M48*

1. INTRODUCTION

Globalization and internationalization is one of the main engines for supporting the harmonization process. Therefore, in this paper we want to analyze the similarities and differences between national and international provisions on the accounting treatment applied to property, plant and equipment. In other words we will try to determine the level of this ongoing process of harmonization.

Internationally, the IASB recommends to all the countries to implement the International Financial Reporting Standards (IFRS). As regards the accounting treatment recommended for the evidence of property, plant and equipment and reporting of the information the same in the financial statements, it is materialized in IAS 16 "Property, plant and equipment".

At the national level, the Ministry of Public Finance regulated the accounting activity regarding the property, plant and equipment, by OMFP no. 3055/2009, amended by OMFP no. 2869/2010.

2. PARALLEL REGARDING THE INTERNATIONAL AND NATIONAL PROVISIONS APPLICABLE TO PROPERTY, PLANT AND EQUIPMENT

Comparing national[1] and international regulations[2], next we shall analyze the accounting treatment applicable to property, plant and equipment.

[1] OMFP no. 3055 from October 29, 2009 for the approval of the accounting regulations in compliance with the European Directives, as amended by the OMPF no. 2869 of December 29, 2010, published in the Official Gazette, Part I no. 882 of December 29, 2010.
[2] IAS 16 "Property, plant and equipment" IFRS – Official rules issued on January 1, 2009, Publishing House CECCAR, Bucharest, 2009.

Thus, we find out while comparing definitions that most of the terms are defined identically in both regulations/ reference frames. For example, the following terms are defined identically: property, plant and equipment, depreciation, useful life, book value, cost and fair value.

The national reference frame also contains incomplete or missing definitions. For example, although it states that the depreciable amount is represented by cost or other value substituting the cost (i.e., the revalued value)[3], the national regulation does not allow (since it does not make references) to reduce it with the residual value of the asset. Moreover, OMFP no. 3055/2009 makes very few references to the concept of residual value. Thus, "if, when the annual financial statements are prepared in compliance with these regulations for the first time, the acquisition cost or production cost of a property can not be determined without undue delay or expenses, the residual value at the beginning of the fiscal year can be treated as an acquisition cost or production cost. Any application of this provision should be indicated in the explanatory notes. In this context, the residual value is the fair value of that property."[4] Even so, IAS 16 states that often in practice, the residual value is nil.

The national regulations have not yet taken the concept of "recoverable amount" and "entity-specific value. " However, the impairment losses, though not identically defined, are determined the same (section 56 of OMFP no. 3055/2009).

Regarding the recognition of property, plant and equipment, IAS 16 additionally includes the requirement of **reliable assessment** of the asset cost.

However, the two reference frames include similarities (thus it is showed the harmonization level of the national legislation with IFRS) regarding the cost elements (including the initial estimate of the costs for dismantling and moving the item and restoring the site where it is located through the 1513 account "Provisions for decommissioning property, plant and equipment and other similar actions related thereto"), cost assessment and assessment after recognizing (the model based on cost and reassessment model).

The international reference frame is always based on the use of professional reasoning, which is why is has more comprehensive provisions than the national reference frame which is based on specific conditionings ("what is not provided is allowed"). For example, IAS 16 states including the moment when the recognition of costs in the accounting amount of an item of property, plant and equipment should cease, and when such item is at the location and condition necessary for operating in the manner intended by the management[5].

The exchange of assets is not allowed by the national reference frame (which is treated as a sale and subsequent purchase).

As regards the reassessment model, the international reference frame states that it can be used only if the fair value can be **reliably assessed**, which specification is not found in the national reference frame. The difference is quite large, especially in terms of choice of evaluators namely, unlike IAS 16; the national reference frame fails here to limit creative accounting policies. However, the national reference frame makes explicit specifications regarding the accounting for financial leaseback transactions (sale of property, plant and equipment and rental of the same in financial leasing), specifications that limit the creative accounting policies. Thus, the financial leaseback transaction

[3] Section 68, para. (2) of OMFP no. 3055/2009.
[4] Section 67, para. (2) of OMFP no. 3055/2009.
[5] Section 20 of IAS 16.

should be treated as a means whereby the lessor provides financing to the lessor and the asset has a security role[6].

However, the national reference frame took over entirely the specifications of the international one: the treatment of accumulated depreciation at the reassessment date (proportional recalculation/elimination of gross book value of the asset, the method of accounting for increases or decreases resulting from the reassessment (in equity, expenses or income) and the method of transferring the reassessment surplus included in equity when the surplus represents a realized gain.

Similarities between the specifications of the reference frames compared can be also found in terms of recognition/non-recognition of subsequent expenses/costs, based on the same criteria (improvement of initial technical parameters and obtaining future economic benefits additional to those originally estimated).

Although both reference frames condition the depreciation methods to the coverage rate of how the future economic benefits of an asset are expected to be consumed by the entity, only IAS 16 stipulates the requirement of an annual review (at least) of such methods. Unlike IAS 16, the national reference frame conditions the change of depreciation methods to the existence of errors in estimating how the benefits are consumed (without the existence of such errors the depreciation method can not be changed). In the same time, OMFP no. 3055/2009 also provides the existence of accelerated depreciation regime (IAS 16 does not provide for such a system).

Another difference is found in the review of the period of depreciation. IAS 16 requires such a review at least annually (including review of the residual value). According to OMFP no. 3055/2009 the depreciation period may be renewed exceptionally only if it is justified by obsolescence of the property, plant and equipment or significant change in the terms of use, and if the property, plant ia dormant, its use being discontinued for a long time.

With regard to compensation for the depreciation of property, plant and equipment (total or partial destruction, etc.) both reference frames contain the same provisions.

3. CONCLUSIONS

Comparing the provisions regarding the property, plant and equipment, stipulated by OMFP no. 3055/2009 and IAS 16 we can find more similarities than differences. From this perspective, we might conclude that the process of harmonizing the national legislation with the provisions of international standards is at an advanced stage.

However, although few, the differences concern quality and substance. For example, what IAS 16 requires as mandatory (annual review of the depreciation period, of the depreciation method and residual value), OMFP provides as an exception. Of course, the state's fiscal interests can not be ignored. This is normal if, in the public interest, IASB is required to develop global accounting standards to meet especially investors' interest with respect to the high quality, transparent and comparable information reported in the financial statements of general use. The Ministry of Public Finance of Romania, as objectively as we would consider things, can not serve the interests of investors at the expense of personal interest. In these circumstances, the

[6] Section 102 of OMFP 3055/2009: „The financing operation will be showed by the accounting article: 512 "Current accounts in banks" = 167 "Other assimilated debts and loans". In terms of the value added tax regime, there are two distinct operations, namely the delivery of the good, performed by the lessee and the leasing operation carried out by the lessee, for which the value added tax is recorded under the law".

Ministry has made an effort in taking from the international reference frame the specifications that lead to an improvement in the information published in the financial reporting regarding the property, plant and equipment (based on the principle "reconcile both parties").

In this context, from the personal perspective of the Ministry it is are logical to provide for the review only in exceptional cases of the depreciation methods, of the useful life and ignoring the residual value (if the entities had been allowed to change them, the influences on tax could have been substantial). This is also due to the fact that major entities (applying the IFRS) are too little interested in lowering the tax debts at the expense of investors' interest (profitability, dividends, etc.), while small enterprises (and sometimes middle ones) are much more interested in reducing the tax liabilities and to serve the investors' interest is their last concern.

However, two issues remain less logical: why OMPF 3055/2009 allows the use of the accelerated depreciation method and why reassessment is not conditioned by the reassessment reliability? The first question might be answered even by the Ministry while explaining the accelerated depreciation method: "Because the calculated depreciation must be related to the use of the asset and, since in rare cases the property, plant and equipment is consumed in the first year in a percentage of up to 50%, therefore the accelerated depreciation method is less used in accounting purposes"[7].

Even so, the two reference frames contain enough similarities and we can often say that the Ministry has "copied and pasted" many timed from the IAS 16, which can only make us happy. In addition, the national reference frame also includes in the property, plant and equipment section provisions regarding the financial and operational leasing of IAS 17 "Leasing agreements". Unfortunately, the connections between property, plant and equipment and IAS 23 "Borrowing costs" (mandatory capitalization of borrowing costs directly attributable to the acquisition, construction or production of assets with long production cycle - in our case, property investment with long production cycle) and IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" (the book value of property, plant and equipment can be reduced by government grants) have not been introduced in the OMFP no. 3055/2009.

Finally, we will also point out some differences in terms. Thus, IAS 16 provides in section 67 that "derecognition" of the book value of an item of property, plant and equipment should be carried out upon disposal or when no future economic benefit is expected from its use or disposal. OMFP no. 3055/2009 addresses this issue in sections 114 and 115 under the heading of "disposal and transfer".

A final conclusion can be succinctly produced as follows: the national legislation contains several provisions of IAS 16, but still has to cover a few substantive changes to be fully compliant with the international reference frame (it is on the right path).

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