

# THE ACCOUNTING REFERENCE SYSTEM OF PROPERTY, PLANT AND EQUIPMENT AND ITS IMPLICATIONS ON THE ROLE OF ACCOUNTING IN SATISFYING THE PUBLIC INTEREST AND ASSUMING SOCIAL RESPONSIBILITY

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**Abstract:** *The expansion of the globalization phenomenon, the circulation of capitals and the information needs of investors have led to the emergence of what is intended to be a common accounting language, embodied in the system of International Financial Reporting Standards. However, the process of ensuring accounting convergence in financial reporting is not coming to an end, as the conceptual and methodological differences promoted by the various existing accounting standards can still be identified. In this context, in our study, we proposed to make a comparative analysis of the specific issues of property, plant and equipment having a comparison base in the accounting treatments promoted by the international reference system, on the one hand, and the accounting rules discussed by the rules governing accounting issues in Romania, on the other hand. This analysis will be carried out both from a technical perspective, which concerns the actual accounting treatments specific to property, plant and equipment, and in terms of the role that accounting has in serving the public interest and assuming social responsibility.*

**Keywords:** accounting; public interest;; social responsibility;; IFRS; accounting treatments.

## 1. Introduction

The existence of conceptual and methodological differences between the treatments promoted by the various national accounting systems, in the context of the internationalization of economies and financial markets, necessitated the design of an international system of accounting and financial reporting standards, the application of which would achieve the overall goal of comparability of information in time and space for those interested in the financial communication process, especially from the perspective of the interests generated by the intention to invest in the capital of various economic entities.

Known as International Financial Reporting Standards (IFRS), the international reference system has also left its mark on other national accounting systems as a result of a more complex process aimed at ensuring convergence in financial communication, so that several countries have transformed this set of standards in national accounting standards, and others have taken over in their own regulations a series of IFRS-inspired accounting treatments.

In the case of the accounting norms applicable in Romania, this tendency to take over specific IFRS reasoning can be noticed, so that, over time, the rules promoted by the national accounting system have undergone several changes, a significant part having as inspiration the international reference system.

As only certain entities in Romania are opposed to accounting regulations compliant with International Financial Reporting Standards, while others apply the rules based on the provisions of European directives on accounting, we consider it

important to analyse and identify both those accounting treatments that are common to the two approaches, as well as the elements that still differentiate the rules promoted by the two accounting standards.

This analysis is all the more important if we take into account the social role that accounting plays, given that it has, among other things, the task of serving the public interest.

Assuming a social responsibility towards the public interest is one of the major objectives of modern accounting, if we consider that this science contributes significantly to the development of human society by creating the necessary premises for the sustainable development of economic entities.

In this context, we must point out that the existence of a regulatory process in the field of accounting and moreover, the existence of accounting reference systems that still generate different approaches, may call into question the achievement in optimal conditions of the stated objective of serving the public interest.

Considering that there are several categories of beneficiaries of accounting products, each category having specific information interests, which makes the existence of several accounting references and implicitly different accounting rules from one reference system to another to be constituted in a factor that can generate subjectivism and can disrupt the process of satisfying the public interest.

This subjectivism, also noticed by other authors (Collette C., Richard J., 2000), refers to the fact that the information produced by accounting for the representation of reality, through its specific language, is intended for various categories of stakeholders, often antagonistic, given that “the fundamental objectives and treatments of the information system, from a given era and country, are determined by the economic stakeholder who holds power, in that country, at that time” (Minu M., 2002 ).

In general, the development of accounting rules, the use of specific principles, rules and treatments, aims to give objectivity to the financial communication process, but the existence of several accounting references, which still do not ensure full convergence, generates relativity and subjectivism in terms of the objectives assumed by accounting.

## **2. The objectives of the study**

A representative category for any economic entity, from the point of view of the complexity of the accounting treatments, is that of the property, plant and equipment held. The dynamics of the accounting regulations applied in Romania highlights a certain evolution of the rules specific to this category of assets, as a result of the updating of the relevant European directives and, implicitly, of the accounting regulations applied by the Romanian economic entities.

The study captures, under the generic name of property, plant and equipment, the entire range of property, plant and equipment that refer to both the tangible fixed assets themselves and other categories assimilated to them represented by real estate investments and fixed assets held for sale.

The objectives of this study are to highlight, in a comparative analysis, the common elements, on the one hand, and the particular treatments, on the other hand, that can be associated with the category of assets in question, the purpose of this analysis being to support the idea that the international accounting system is

increasingly influencing the accounting rules applied at national level by economic entities.

At the same time, based on the results that emerge from the comparative analysis, we will conclude on the extent to which the existence of conceptual differences between the two accounting reference systems affects the objective of satisfying the public interest, which is accounting as a social science.

### **3. The research method**

In order to achieve the objectives that we have set, the research method used will target several specific procedures between which the observation, analysis and comparison will have a significant weight.

In the first phase of the research, we paid attention to the detailed analysis of the normative framework that regulates the issue of property, plant and equipment at national and international level.

Subsequently, in order to be able to formulate the personal points of view, as well as the conclusions related to the study, the research undertaken focused on performing a comparative analysis between the targeted reference systems, with the intention of identifying, on the one hand, the common elements and, on the other hand, the aspects that differentiate the two approaches, as well as the impact they may have on the objective of satisfying the public interest.

### **4. Results and discussions**

#### **4.1. Defining tangible and assimilated assets**

**Regarding the property, plant and equipment** it is noted that both the national regulations and IAS 16 “Property, plant and equipment” define them, from an accounting point of view, as assets that:

- a. are owned by an entity for use in the production of goods or the provision of services (production or supply of goods or services – OMFP 1802/2014), to be leased to third parties or to be used for administrative purposes;
- b. are expected to be used over several periods (they are used over a period of more than one year – OMFP 1802/2014).

In this case, the Romanian tax legislation must also be taken into account, which uses the concept of “fixed assets”, which does not coincide with that of “property, plant and equipment” within the meaning of IAS, the difference being generated by the additional condition that the value of fixed assets be higher than the minimum limit imposed by normative acts. Therefore, from an accounting point of view, according to national regulations, not all items that meet the definition given by IAS 16 are considered property, plant and equipment (see certain items considered inventories, more precisely materials of the nature of inventory items, as they do not meet the condition of value).

A distinct category of fixed assets that only international standards bring into question concerns **fixed assets held for sale**. Analysed in the context of national regulations, it should be noted that they do not use the concept of fixed assets held for sale in the manner in which international standards do.

If we refer to the accounting treatments considered in the context of national regulations, with reference to this category of balance sheet elements, we note that in the case of assets for which the waiver/disposal decision has been taken, their separate disclosure is not required in relation to other tangible or intangible assets and, as a rule, the sale operations involve, from a methodological point of view, the recording of the realized income, while the discharge of the inventory or the derecognition of the sold asset is based on the highlighting of the accumulated depreciation, respectively of the expenses related to unamortized value.

- sale of tangible or intangible assets:

Debit "Receivables"

Credit "Revenue from the sale of assets and other capital operations"

- removing the asset as a result of the sale:

Debit "Depreciation of fixed assets"

Debit "Expenses on waived assets and other capital operations"

Credit "Property, plant and equipment accounts"

Resorting to the international accounting reference system, we note that the issue of fixed assets held for sale is addressed by **IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"**. The subject approached by this standard starts from the idea according to which the fixed assets held by the entity, which no longer intends to use on a continuous basis for its own needs of the operating activity, having the intention to sell them, must be presented separately in the financial situations to enable users of the information provided in these summary documents to analyse the financial implications of these decisions and to decide, in turn, in full knowledge of the facts.

According to the above standard, fixed assets held for sale are defined as those assets whose carrying amount will be recovered primarily through a sale transaction and not through their continued use, and entities must classify them as such, presenting them in the financial statements separately from the assets intended for operation on a continuous basis.

The third category of assets that is the subject of our study refers to **investment property**, and according to IAS 40 "Investment Property" they are considered those real estate properties, of the nature of land or buildings, owned by the owner or lessee (based on a financial lease), for the purpose of renting, for the increase of the value of the capital or both than for use in the current activity or for sale during the normal development of the activity.

We note, therefore, that this standard distinguishes between the notion of investment property and that of real estate. This distinction is determined, on the one hand, by the purpose for which the asset in question is held, and on the other hand by the fact that an investment property generates cash flows that are largely independent of other assets held by the entity while the production or supply of goods or services (the use of property for administrative purposes) generates cash flows that can be attributed not only to the real estate, but also to other assets used in the production process.

It follows that real estate, as defined by IAS 40, is property, plant and equipment (land or buildings) held for use in the production or supply of goods or services, or for administrative purposes.

The national accounting regulations (OMPF no. 1802/2014) similarly define property investments and require their distinct presentation, but include them in the category of property, plant and equipment. Therefore, real estate investments, within the meaning of national regulations, are subject to accounting rules specific to property, plant and equipment. Under these conditions, entities that apply OMPF 1802/2014 cannot opt for the fair value evaluation model, as promoted by IAS 40.

#### **4.2. Recognition and derecognition of tangible and assimilated assets**

Particular attention is paid to the process of recognizing assets in the financial statements according to the criteria required for this purpose.

In principle, both accounting reference systems provide the fact that assets are recognized if it is possible to generate future economic benefits for the entity and their cost can be measured credibly/reliably.

**Recognition of property, plant and equipment** in accordance with IAS 16, is conditional on the estimation, with sufficient certainty, of future economic benefits from its use, lease or owning, but also on the credible determination of its value/cost. This estimate is usually based on the fact that the entity will benefit from the advantages associated with the asset, but will also take the implicit risks. The same rules of principle are met in the case of accounting regulations in Romania.

Both accounting reference systems stipulate that an item of property, plant and equipment must be derecognised upon disposal or cassation, or when no future economic benefits are expected from its use or disposal.

Regarding **fixed assets held-for-sale**, in order to recognize them it is necessary to pursue the fulfilment of certain conditions:

1. to be prepared for immediate sale in its present state, and its sale must be *very probable*.

2. in order for the sale to be characterized as highly probable, the entity's management must take a number of actions, including:

- the elaboration of a plan for the sale of the asset (or of the group destined for the disposal);
- carrying out an active search programme for a buyer in order to complete the sales plan;
- promoting the sale of the asset, at a price reasonably correlated with the current fair value of the asset;
- the existence of expectations that the transfer of the asset will take place within one year from the classification of the asset as available for sale;
- it is unlikely that the original plan will change significantly or take into account the intention to cancel the sale.

Sometimes there is a possibility that the sale of the asset will not take place within one year from the date of its classification as held-for-sale. In such situations,

IFRS 5 allows that asset to continue to be classified as available for sale only *if the delay is caused by events and circumstances beyond the entity's control and if there is sufficient evidence that the entity remains committed to its plan to sell the asset.*

When the sale is expected to take place after more than one year, the entity shall measure the sale costs at present value.

For **fixed assets that cease to be classified as held-for-sale** or cease to be part of a group of assets classified as held for sale, the evaluation is made at the lower value of:

- the carrying amount before the asset or group of assets was classified as held-for-sale, adjusted by any depreciation or revaluation that would have been recognized if the asset or group of assets had not been classified as held-for-sale; and
- the recoverable amount of the asset on the date on which it was decided that it will not be disposed anymore.

**The recognition of property investments** as assets is achieved when the general criteria aimed at:

1. the probability of generating future economic benefits related to the investment to the entity; and
2. credible evaluation of the cost of the real estate investment.

The recognition of the costs related to the property investments is made when the initial costs related to the acquisition appear and include, as well as those that appeared later on the occasion of the addition, replacement or maintenance of a part of the real estate property. In the same context, we also mention the fact that the entity cannot recognize in the carrying amount of a property investment the costs of its daily maintenance.

On the other hand, IAS 40 requires the recognition in the carrying amount of a property investment of the cost of replacing part of it when the costs are incurred, provided that the general recognition criteria for future economic benefits and reliable cost measurement are met. In this case, it is necessary to derecognize the replaced part.

**The derecognition of the property investments** must be made from the moment of the disposal or when the respective investment is definitively withdrawn from use and no future economic benefits are expected to appear from its disposal.

It should be noted that in the context of IAS 40 the disposal of an investment property may be made by sale or by contracting a finance lease.

The gains or losses arising from the cassation or disposal of property investments will be determined as the difference between the net influx from the disposal and the carrying amount of the asset and they will be recognized in the income statement during cassation or disposal.

### **4.3. Evaluation of tangible and assimilated assets**

In general, the rules on **the initial evaluation of tangible goods** provided by national regulations correspond to the provisions of international regulations.

Thus, an item of property, plant and equipment that qualifies for recognition as an asset must be measured initially at its cost, which may be the cost of acquisition or the cost of production, as the case may be.

**a. The acquisition cost** of an asset consists of its purchase price, plus customs duties, non-recoverable taxes and all directly attributable expenses incurred to bring the asset into its intended state of use. The purchase price is reduced by commercial discounts.

In the category of costs directly attributable to property, plant and equipment, we can mention: the cost of arranging the site, initial delivery and handling costs, installation costs, professional fees, etc.

Regarding the acquisition cost, we mention as a peculiarity the fact that both IAS 16 "Property, plant and equipment" and OMPF no. 1802/2014 requires the inclusion in its structure of the initial estimate of the costs of dismantling and moving the asset and restoring the location where it is located, which give rise to an obligation for the entity either to acquire or use the asset in a certain period for purposes other than the production of stocks during that period.

**b. The cost of production** includes the cost of purchasing raw materials and consumables, production costs directly attributable to the good (energy consumed for technological purposes, direct labour and other direct production costs), as well as the share of indirect production costs rationally allocated as related to manufacturing.

Most property, plant and equipment generate **expenses subsequent to the initial recognition**. In this case, there is the problem of increasing the cost of the respective assets with the value of the expenses incurred or their recognition as expenses of the period.

Both national regulations and international standards address this issue in a similar way.

Thus, as a rule of principle, subsequent expenses incurred with an intangible or tangible asset, after its purchase or completion, are either recorded in the expense accounts when incurred or increase the cost of the asset when they are likely to allow the asset to generate future economic benefits over the initially planned performance and if they can be measured reliably.

However, national regulations state that the subsequent costs incurred after the initial recognition of an intangible asset are rarely recognized in the value of the asset, requesting the evaluation by professional reasoning of the probability of producing future economic benefits based on rational and easy to sustain calculations.

In the case of property, plant and equipment, the cost of the overhauls and current inspections carried out, for the purpose of their continuous use, must be recognized as an expense in the period in which they are carried out.

For regular inspections or overhauls performed to detect defects, their cost may be recognized as an expense or in the carrying amount of the asset as a replacement if the recognition criteria are met. When the cost of the inspection is recognized as a component of the asset (situation specific to fixed assets whose inspection and overhaul costs are significant: aircraft, sea and river vessels, complex equipment, etc.), the value of the component is depreciated over the period between two inspections. The additional benefits can be seen directly in terms of increased revenue, or indirectly by reducing maintenance and operating costs.

A particularity that IAS 16 highlights regarding the issue related to subsequent costs is the accounting treatment of operations to replace components of property, plant and equipment. These are both replacements that need to be made at certain regular intervals and non-recurring replacements. Thus, IAS 16 and OMPF 1802/2014 require entities to recognize in the carrying amount of property, plant and equipment (to capitalize) the cost of the replaced part when this cost is borne by the entity, provided that the recognition criteria regarding the probability of generating future economic benefits and reliable assessment of the cost of replacement are met.

Regarding **the evaluation after the initial recognition**, elements of similarity can generally be identified between the accounting treatments provided by the two reference systems.

**The national regulations** specify that property, plant and equipment must be presented in the balance sheet at the carrying amount represented by the acquisition cost, production cost or other value that replaces the cost, less the accumulated depreciation up to that date, as well as the accumulated depreciation adjustments. In addition, the same regulations state that entities may revalue property, plant and equipment existing at the end of the financial year so that they are presented in fair value in accounting, reflecting the results of this revaluation in the financial statements.

**IAS 16** stipulates that, with respect to the evaluation performed after recognition (at the balance sheet date), an entity may choose as an accounting policy either the cost-based model or the revaluation model.

In this context, we recall that on the one hand the **cost model**, considered a reference model or basic treatment, states that *“After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.”*, while **the revaluation model**, considered as an alternative treatment to the reference model, stipulates that *“After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses”* (IAS 16, paragraphs 30-31).

The professional judgment must be manifested essentially in the issue of revaluation, in the sense that professional accountants must determine the frequency of revaluation, depending on the significant evolution of fair value, and the treatment of accumulated depreciation at the date of revaluation, as revaluations must be performed regularly so that the carrying amount does not differ substantially from that which would have been determined using fair value at the balance sheet date.

Regarding the revaluation operation of property, plant and equipment, it is mentioned that according to both accounting reference systems, the accumulated depreciation at the revaluation date can be solved differently, depending on the technique chosen by the professional accountant, the nature of the tangible asset and the objectives pursued:

- a. is recalculated in proportion to the change in the gross carrying amount of the asset, so that its carrying amount, after revaluation, is equal to its revalued value (index method).
- b. is deducted from the gross carrying amount of the asset and the net amount is recalculated to the revalued amount of the asset (especially for buildings).

The accounting settlement of the results of the application of the revaluation model brings into question the following possible variants:

**1. A negative revaluation difference** shall be recognized as an expense if no revaluation surplus has been recognized on account of equity (revaluation reserves):

Debit "Expenses"

Credit "Property, plant and equipment"

**2. A negative revaluation difference** found after an increase in revaluation in equity was previously registered is recognized by a decrease in the revaluation surplus, and any uncovered difference is recognized as an expense:

Debit "Revaluation reserves"

Credit "Property, plant,  
equipment"

Or

Debit "Revaluation reserves"

Debit "Expenses"

Credit "Property, plant,  
equipment"

**3. A positive difference** in revaluation is recognized in equity, if there has previously been no impairment expense:

Debit "Property, plant and  
equipment"

Credit "Revaluation reserves"

**4. A positive revaluation difference** found after a revaluation loss has previously been recognized on expenses is recognized as income that offsets (cancels) the expense, and any uncovered difference affects equity:

Debit "Property, plant, equipment"

Credit "Income"

Or

Debit "Property, plant, equipment"

Credit "Income"

Credit "Revaluation reserves"

The revaluation surplus included in the revaluation reserve is capitalized by direct transfer to retained earnings, when that surplus represents a realized gain. IAS 16 does not specify whether revaluation reserves are distributable or not, whereas national regulations state that no part of the revaluation reserve may be distributed, directly or indirectly, unless it is an actual gain.

**Fixed assets classified as held-for-sale** must be valued at the lower between the carrying amount and fair value minus costs of sale and are not depreciated.

IFRS 5 does not explicitly require an impairment test to be performed, but the fact that, for the evaluation, the net fair value is determined allows the determination of possible impairments.

Therefore, the mentioned standard requires the recognition of an impairment loss for any initial or subsequent reduction in the value of the asset (or group) to the level of fair value less costs to sell. When there is a subsequent increase in fair value less costs to sell, related to the asset, it is necessary to recognize a gain that must not exceed the cumulative impairment loss that was previously recognized.

**In the case of property investments**, the initial evaluation (at recognition) is made at cost, which also includes transaction costs. The cost structure at which a real estate investment is initially recognized is determined by the way in which it is acquired.

For purchased property investments, their cost includes, in addition to the purchase price, the expenses directly attributable to them, including professional fees for the provision of legal services, fees for the transfer of ownership or other transaction costs.

The cost of a property investment made on its own is represented by the cost from the date on which the construction or improvement was completed. Until the completion of the construction, the entity applies the provisions of IAS 16. When the self-constructed construction is completed and the registration will be made at fair value, the difference between the fair value of the real estate at that date and its previous carrying amount must be recognized in the global income statement.

With respect to **evaluation after recognition (subsequent)**, IAS 40 recommends that entities choose between two models of valuation of real estate investments:

- a. the fair value model;
- b. the cost-based model.

**The fair value model** differs from the revaluation model that is allowed for certain non-financial assets. According to the revaluation model, increases in carrying amount are recognized directly in equity as revaluation reserves, while according to the fair value model, all changes in fair value are recognized in the statement of comprehensive income, on income or expense, as appropriate. The fair value of real estate investments will reflect market conditions at the balance sheet date and will not include estimated selling expenses, this to highlight the fact that real estate investments are not held for sale. The fair value model, once chosen, will be applied to that asset until it is derecognised or is no longer classified as a real estate investment.

**The cost-based model** assumes that, after initial recognition, the entity measures all real estate investments in accordance with the requirements of IAS 16.

As the accounting regulations promoted by OMPF 1802/2014 include property investments in the category of property, plant and equipment, we specify that they are subject to all evaluation rules applicable to property, plant and equipment, in general, for which, unlike IAS 40, we note that the previous evaluation is done in a different way, in accordance with the principles we mentioned earlier for property, plant and equipment, without taking into account the fair value model as promoted by IAS 40.

#### **4.4. The depreciation of tangible and assimilated assets**

The issue of depreciation of property, plant and equipment, in general, highlights a number of conceptual differences between the two accounting standards, the comparative analysis of which is based on the following criteria:

- according to IAS 16, depreciation is defined as *“the systematic allocation of the depreciable amount of an asset over its entire useful life”*, while OMPF 1802/2014 defines it as the *“systematic allocation of the depreciable amount of an asset over its entire economic use duration”*;

- in the case of the application of IFRS, professional judgment has a very important role to play in the application of depreciation accounting policies, while national regulations are more rigid, professional reasoning not having the same meaning as in the case of international standards;

- in the context of the international accounting systems, the issue of depreciation of property, plant and equipment is not influenced by elements of a fiscal nature, while national regulations call into question the difference between accounting and tax depreciation;

- according to IAS 16, depreciation periods are estimated by applying professional judgment and reviewed periodically, and in the context of national regulations, from an accounting point of view they are estimated and from a fiscal point of view they are established centrally by normative acts, the possibility of overhaul being relatively limited and only from an accounting point of view;

- the depreciable value is represented by the cost of the asset, less the residual value, according to IAS 16, while according to national regulations, from an accounting point of view the depreciable value is the input value of fixed assets, and from a fiscal point of view is the tax value of the depreciable fixed assets;

- national regulations do not use the concept of residual value, whereas, according to IAS 16, this is an element estimated by applying professional judgment and taken into account when determining depreciable value;

- IAS 16 requires depreciation to be calculated from the date on which the asset is available for use, whereas according to OMPF 1802/2014 it is determined from the month following the commissioning;

- international norms do not require certain methods of calculating depreciation, the entity being able to determine what type of method to apply and review them periodically, and the national reference system, both from an accounting and fiscal point of view, refers to four methods of depreciation (linear, degressive, accelerated and per unit of product), the entities, in certain situations, not having the possibility to opt for the depreciation method.

#### **4.5. Depreciation of tangible and assimilated assets**

**According to the national regulations**, in essence, the evaluation at inventory of fixed assets is performed as an operation prior to the end of the financial year and is based on the current value from 31<sup>st</sup> December. This value is called inventory value and is estimated based on the market price, the utility of the good for the entity, location, the situation of the material goods (degree of wear), etc.

In principle, according to national norms, the depreciation of assets is estimated as the difference between the carrying amount, based on historical cost, and the inventory value, based on current value. If the historical cost can be said to represent a value with objective and verifiable determination, instead, the current value should be the expression of professional reasoning as it is estimated in relation to the market price, the usefulness of the valued item and its condition.

. For items that show impairment, based on the inventory lists prepared, the inventory commission makes proposals to determine adjustments for impairment or to record additional depreciation, as appropriate. The results of the inventory are presented to the management of the entity in order to approve and record the impairments.

In the context of national regulations, the impairments found are accounted for by recognizing expenses, differently, depending on the nature of the impairment:

- in the case of reversible impairments, adjustments for impairment of fixed assets are recognized;

- in case of irreversible depreciation, additional depreciation is highlighted.

Analysed **in the context of international norms**, the issue under discussion is distinguished from the specific approach to national legislation both by complexity and by means of particular elements that refer, in general, to issues related to identifying depreciated assets, evaluation of net fair value and value in use, estimating the value in use, using the concept of cash-generating unit, etc.

Issues related to the impairment of fixed assets are addressed in **IAS 36 “Impairment of Assets”**. It specifies that entities must verify, at each balance sheet date, whether there are indications of an impairment of assets and, if there are such indications, to estimate their **recoverable amount**.

Even if there is no indication of impairment, the enterprise must test for impairment annually by comparing the carrying amount with the recoverable amount, intangible assets with an indefinite useful life or intangible assets that are not yet available for use, as well as the goodwill from a combination of companies.

When assessing the existence of indications that may signal the depreciation of assets, the company must take into account certain external and internal sources of information. In this context, we point out an approach of the national legislation to the spirit of IAS 36, which took over the idea of establishing the existence of depreciations of tangible and intangible assets through the analysis of external and internal sources of information.

IAS 36, as well as OMPF 1802/2014 points out the main external and internal sources of information, without being considered as limiting.

When indices of impairment of an asset are identified, the entities shall estimate its recoverable amount and perform the impairment test by comparing the recoverable amount with the (net) carrying amount. If the recoverable amount is lower than the carrying amount, it is concluded that the asset is impaired.

According to IAS 36, the recoverable amount is the maximum of an asset’s fair value diminished with the costs to sell and its value in use.

There can be seen the difference between national regulations and IAS 36 determined by the use of different concepts, namely, inventory value (present value), in the case of national norms, respectively recoverable amount, in the case of international norms, both compared to determine depreciation with net carrying amount of the asset.

At the same time, it should be noted that it is not always necessary to determine both the net fair value and the value in use of the asset, because when either of the two values exceeds the carrying amount of the asset, it is not impaired.

We must not lose sight of the fact that both establishing the fair value less costs to sell (net selling price) and the value in use are steps that can raise difficulties.

IAS 36 defines **fair value less costs to sell** as the amount that can be obtained from the sale of an asset in a transaction conducted under objective and knowledgeable conditions between interested parties and less costs to dispose. In general, the best indication for determining fair value less costs to sell is a firm commitment to sell in an objective transaction. In the case of heavily traded assets that have an active market,

fair value can be determined in relation to publicly available information (price lists or catalogues), even if there is no firm commitment to sell. However, in the case of much property, plant and equipment, fair value may not be easily estimated in relation to an active market or the existence of a firm commitment to sell, and in these cases the best information available regarding the amount that the entity can obtain at the balance sheet date from the disposal of an asset in a transaction carried out under objective conditions, after deducting all costs related to the disposal. In such situations, the results of recent transactions with similar assets in the same industry are taken into account in determining the net fair value.

**The value-in-use** represents the present value of the cash flows expected to be obtained from an asset. The calculation of the value-in-use involves:

- 1. the estimation of future cash flows** (cash inflows or outflows) generated by the continued use of the asset and its disposal;
- 2. determining the present value of these flows by applying an appropriate discount rate.**

Reasonable assumptions must be taken into account when forecasting future cash flows, in order to avoid exaggerated rates of revenue growth, significant anticipated significant cost or life reductions and, in general, previous experience must be taken into account.

Comparing the two values specific to international norms (net fair and, respectively, usage) with the inventory value (current), specific to national regulations, we observe certain similarities between the fair and the inventory value, without considering them synonymous, the latter assuming, to a certain extent, somewhat similar estimation criteria (market price, utility, asset status, etc.). But the value in use, as defined by IAS 36, in our opinion, has no equivalent in national norms, not so much from a theoretical and normative point of view, but especially in terms of practical ways of determining.

Although national accounting regulations refer to the calculation of present value stating that "*in the case of tangible and intangible assets, other evaluation methods (e.g. cash flow methods) may be considered in determining impairment losses*" ( OMPF No. 1802/2014), we ask ourselves to what extent, in practical activity, especially for small and medium-sized entities, the present value of the expected cash flows is taken into account, when determining the inventory value or if, in general, there is the issue of estimating future cash flows that the entity expects to obtain from an asset?

The other issue related to the value in use measurement results from **the identification of the corresponding discount rate** that applies to the forecasted cash flows. Discount rates should reflect current market assessments of the time value of money and the specific risks of assets for which estimates of future cash flows have not been adjusted.

IAS 36 specifies that an impairment loss is to be recognized as an expense in the income statement, except when the asset is revalued in accordance with IAS 16.

If the recoverable amount of an asset is less than its net carrying amount, the latter **will be reduced to the recoverable amount**, which is equivalent to a reduction in impairment. In accordance with IAS 36, **if the recoverable amount increases in**

**subsequent years, the asset is brought to the recoverable amount so that it does not exceed the remaining amount if the asset had not been impaired.**

There can be a certain approximation of the accounting treatments provided by the two accounting standards, in the sense that by accounting for expenses as an expression of the impairment found the net carrying amount is brought to the level of comparison value, meaning recoverable amount (in case of IAS 36), respectively inventory value (in the case of national regulations).

Another major difference that delimits the two approaches to the depreciation of property, plant and equipment is generated by **the concept of cash-generating units which is specific only to IAS 36, having no equivalent in national norms**, and the ways to identify them and establish the related impairment losses represent particular elements of the mentioned standard, which are based to a very large extent on the professional reasoning.

## **5. Conclusions**

Given that it is not yet possible to talk about a finality of the process of ensuring accounting convergence, in terms of financial communication, we consider as a topical issue the approach of conducting a comparative analysis, which allows us to identify common elements, as well as of those of differentiation, which characterizes the vast issue of property, plant and equipment.

We consider that our scientific approach becomes even more attractive if we take into account the fact that two bases of comparison have been used which still reveal a series of elements that highlight the need to continue the initiatives necessary to achieve the general objective of ensuring international accounting convergence.

Without claiming to carry out an exhaustive research, we consider that through the ideas formulated and the analyses carried out, our study highlights some significant aspects, which allow readers to form a more complete picture of the issue addressed.

As it can be seen from the research conducted, the current state of the regulatory process, in terms of property, plant and equipment, allows us to make some important findings:

- the Romanian accounting regulations, via the European directives on accounting, are marked by a continuous process of assimilating some IFRS-inspired rules;

- the international accounting reference system, generically called the IFRS system, is, in turn, the subject of a permanent process of updating, supplementing and modernizing its components;

- although many resemblances or even similarities can be identified between the two approaches, there are still many elements of differentiation both conceptually and methodologically.

Under these conditions, we consider that the elements that still differentiate the two accounting reference systems are constituted in factors that can generate subjectivism and can affect the objective of satisfying the public interest.

The standardization of accounting through the normalization process, the existence of several categories of stakeholders, as well as several accounting reference systems make it difficult to satisfy equally, from an information point of view, all stakeholders.

Undoubtedly, the production of information in order to meet the needs of users is a fundamental objective of accounting, but inevitably the question arises to what extent it manages to keep an equidistance from their divergent interests.

The study allows us to conclude that the accounting reference system of property, plant and equipment, with its particular elements, which were previously presented, is a combination of factors that make accounting perfectable both in terms of the production and communication of specific information, as well as from the perspective of the social implications it has.

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