COMPARATIVE ANALYSIS REGARDING THE AMORTISATION OF NON CURRENT ASSETS IN A NATIONAL AND INTERNATIONAL CONTEXT

Brăbete Valeriu
University of Craiova Facultatea de Economie și Administrajrea Afacerilor Cartier Rovine, Str. Milcov, Bl. B22, Sc. 1, Ap. 13, Craiova, Dolj, cod 200812 E-mail: vali_brabete@yahoo.com Telefon: 0723144502

Drăgan Cristian
University of Craiova Facultatea de Economie și Administrajrea Afacerilor Str. Făgăraș, Nr. 18, Bl. D13, Sc. 2, Et. 2, Ap. 10, Craiova, Dolj E-mail: cdragano@yahoo.com Telefon: 0726496717

In Romania, starting from the Regulation’s requests (CE) no. 1606/2002 and the national regulations are obliged to apply the IFRS starting with 1st of January 2007 the entities whose immovable values, at the balance date, are admitted to the transaction over a settled market, with the purpose of drawing up consolidated financial situations. This measure supposes a series of processing and accounting options specific to the international referential that points out, at the same time, the existent differences between the national and international norms in matter of amortizations.

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The accounting system of a country is influenced by a series of factors such as the juridical system, the dominant manner of financing of the economic agents, the fiscal system, the inflation level, the economical system, the political system etc., this is the reason for which there are significant differences from one accounting system to another.

As a result of the mentioned factors may be identified to all levels of an accounting system, among which we remember: to the level of organizations of accounting normalization, to the level of used terminology, to the level of accounting principles and to the level of drawing up practice of financial statements and financial communication.

The differences between the accounting systems generate acceptance difficulties of the financial situations drew up by companies for the users in environments sensitive towards the original country ones of the issuing company.

The accentuation of national economies globalization and of integration of financial markets and informational systems claims the using of a common accounting language. That is why the attracting of the international patrimony must be based upon an offer of relevant information, intelligible, and mostly, comparably elaborated in an accounting language, generally accepted.

The investors and financial analysts need to understand the financial statements of foreign companies whose shares would like to purchase, will be able to compare financial statements of companies located in different countries and ensure that the information is relevant and reliable.

In the national accounting system, the financial communication is made in accordance with the Accounting Regulations and with the European directives. This way, for operators, was transposed into the national law the Directive IV and VII resulting the accounting Regulations in accordance with the European directives. Also other institutions with regulatory powers such as NBR, Supervisory Commission and the National Insurance Securities regulations developed in accordance with the European directives specific areas of activity appropriate entities regulated and supervised by them.

The Romanian accounting law foresees the applying of accounting regulations in accordance with the European directives, and the International Financial Reporting Standards (IFRS). European Union Member States have proceeded with the implementation of IFRS in accordance with the Regulation (EC) no 1606/2002 of the European Parliament dated on 19 July 2002 on the
application of international accounting standards. This way, according to this Regulation, member states shall apply the IFRS in the consolidated financial statements.

In Romania, starting from the requirements of Regulation (EC) no 1606/2002 and the national regulations are required to apply IFRS from 1st of January 2007 the entities whose securities at the balance sheet date, are admitted to trading on a regulated market, for the purpose of preparing consolidated financial statements. Other public entities may apply IFRS in preparing the consolidated or individual financial needs for their information.

At the same time, there must be mentioned also an important aspect, which concerns the fact that in the business relationship with the state institutions the reporting base will be represented by rules in accordance with accounting guidelines, including the collection of information underlying the determination of taxes. Therefore the financial statements obtained by the application of IFRS are intended for users of information, other than the state institutions. Also, bear in mind that all entities are required to apply or have opted to apply IFRS must ensure the continuity of their application.

Differences between the law governing issues relating to amortization and certain provisions of IAS/IFRS are essential in many ways only if we refer to the terms of amortization, amortization election methods, review of terms and methods of amortization etc. What essentially distinguishes the current Romanian law, the amortization of the recommendations contained in the international norms, to which I referred, relates primarily to the exercise of professional specialists of reasoning at that moment, and finds not only equivalent a very small extent in the national rules. This is, in our opinion, a very important aspect with numerous implications on the quality of information provided by accounting.

In this context we believe that several issues must be accepted that, in our view, are very important and should be taken into account as working hypotheses when addressing the issue of amortization in the transition from the specific accounting processes at the national rules in accordance with IAS/IFRS.

According to IAS 16, and IAS 38 after initial recognition of a tangible or intangible assets will be valued at its cost less any accumulated amortization and any accumulated impairment loss. International standards define amortization as the systematic allocation of the amount of amortization on an asset throughout its useful lifetime.

Useful life duration is defined by:
- the period during which an asset is set to be available for use by an entity (in years);
- the number of units produced or some similar units expected to be obtained through the use of enterprise assets respectively.

The spirit of international rules is different from what national law requires in terms of amortization. This way, in the international referent’s vision the entity is the one that decides which method of amortization and estimates the useful life duration. In other words, in this context, professional reasoning becomes very important, whereas specialists should call him not only at the beginning of life of an asset, but later, when it can become necessary to review the life or use other methods of amortization.

If in the case of tangible assets the life duration can be expressed in number of years of use or number of products or similar units expected to be obtained from using the asset, in the case of intangible assets determining the life duration is slightly more complex, since the entities must assess whether the life of a intangible assets is determined or not, and if it is determined which one is that (expressed in years or units of products).

Another specific aspect of the international referent refers to the periodic review of the terms of useful life for corporal and non-corporal immobilizations (at least the end of each financial year), and if the new estimates differ significantly from those earlier, the amortization costs associated with current period and future periods should be adjusted. It is possible that the useful life of an asset could be extended by carrying out upgrades to get more performance, or may diminish as a
result of technological advances or changes in market structure. In these cases, similar machines, but which are used by different companies with activity in different areas may have different durations of life.

An element, also specific to the international accounting rules is referred to determine the value of amortization. In this context, a new concept, namely the residual value, defined as the estimated amount that an entity could obtain by ceasing an asset, after deducting the estimated costs for disposal, if the assets have already provided the age and condition at the end of life useful life.

Often, in practice, the residual value is insignificant and not taken into consideration in calculating the amortization, but when the entity intends to replace the asset before the end of life duration of this economic value should be estimated. Specifically, the residual value is realized by comparison with similar assets, at end of life or on the basis of the contract (for leasing).

Therefore, the amortization is determined by subtracting the cost of the asset (or other value substitutable cost) of the estimated residual value. However, it should be recalled that the residual value of an asset may increase to a value equal to or greater than the book value of assets. If this happens, the asset amortization costs are equal to zero unless and until no residual value subsequently decreases to a value below the asset value accounting.

As regards the methods of amortization should be noted that international standards do not prescribe specific methods, but states that for the systematic allocation of the amortization of an asset during its use can be used several methods, by reference to straight-line method digressive or method of production units. Entities must select the method that most reliably reflects the expected pattern of consumption of future economic benefits embedded in an active and consistently applied from one period to another, unless there is a change in the expected rate of consumption of those future economic benefits.

The method of amortization applied to assets should be reviewed at least at each end of the year when there is a change in pattern of consumption of future economic benefits brought by the active method will be changed to reflect this change.

Regarding the accounting amortization, the international rules stipulate the recognition in the profit and loss expenses for amortization, if not included in the value of another asset.

In terms of amortization on property issues, the national regulations are distinguished by a number of elements of international accounting standards. In this context, we refer the more rigid rules of accounting in accordance with European directives on the one hand, and tax rules, on the other hand, compared with the accounting policies promoted by international accounting standards in terms of amortization.

In the vision of national redemption value is an expression which corresponds to irreversible impairment of tangible and intangible assets as a result of their use, the natural factors and moral wear.

Results that from this point of view the amortization takes on the one hand, an economic aspect, by the inclusion in operating expenses amortization of the value of products, and on the other hand, a financial aspect, by the formation of the source necessary to replace immobilizations depreciate totally or to finance of some new ones.

Entities who apply the accounting rules in accordance with the European directives determine the amortization by applying the amortization rates on the value of tangible entry or values remained updated, according to case.

We consider for starting that it must be clarified the input value concept as it is defined by the national standards, specifying that the tax rules aim at strictly the entry value of the fixed assets amortization. So, by the entry value of the fixed assets is understood:

- cost for fixed assets purchased with for good and valuable consideration;
- cost of production for fixed assets constructed or produced by the taxpayer;
- the market value for fixed assets acquired free of charge.
For tangible assets that are used in lots, sets, or as a single body, lot or set, to determine the amortization is taken into account the value of the whole body, lot or set. For components included in the structure of an active body, which during normal usage differs from the result of the asset, amortization is calculated for each component separately. In this case it is found close to the national law of international norms.

As regards the amortization periods should be made some distinction between the tangible and intangible assets.

In the case of intangible assets, national regulations set the following rules:
- expenses of constitution must be redeemed within a period not exceeding five years;
- expenses related to acquisition of patents, copyrights, licenses, trade marks and other factory or similar values and development costs in accounting intangible assets is recovered through amortization deductions during the contract period or use as appropriate;
- expenses related to acquisition or production of software are recovered through amortization deductions over a period of 3 years.

Some features show goodwill, which under tax legislation is not considered active redeemable. However, accounting rules in accordance with European directives that specify where goodwill is treated as an asset, as a result of the acquisition by an entity of the actions of another entity, should be considered the following issues:
- goodwill is amortized, usually within a period not exceeding five years;
- however, entities may recover the goodwill systematically over a period exceeding five years, provided that this period does not exceed the duration of use of economic assets.

Regarding the tangible assets, in our country the normal using durations of fix assets are set by the central government decision, being periodically reviewed. As required by the normative act referred to, the normal operating period is to use the recovered in terms of tax, the input of fixed assets by amortization. Consequently, the normal functioning duration is more reduced than the physical life time of the respective fix asset. Even if by the new Catalogue regarding the classification and normal functioning durations of the fix assets are foreseen intervals of time within which operators can choose the length that are considered optimal with respect to their economic needs, however, view that the very many cases, especially minimum required by the normative act does not coincide with the views of experts/technicians in production.

In Romania, companies are required to amortize the intangible and tangible assets in accordance with the legislation in force, using linear amortization regimes, digressive or accelerated. Moreover, tax legislation requires to a large extent even the type of method to be applied to one category or the other non current assets.

So, trying to make a quick comparative analysis between the two referential accounts, the conclusions can be drawn as shown in the table below:

<table>
<thead>
<tr>
<th>Explanations</th>
<th>International standards</th>
<th>National regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining amortization</td>
<td>Systematic allocation of the amortizable value of an asset upon its entire useful life duration.</td>
<td>The value expression that corresponds to the irreversible depreciation of the tangible and intangible assets as a result of their using, of the natural factors action and moral usage.</td>
</tr>
<tr>
<td>Professional reasoning</td>
<td>Has a very important role in applying the accounting politics.</td>
<td>The national regulations are enough rigid and do not allow the manifest of the professional reasoning but only in a small measure.</td>
</tr>
<tr>
<td>Amortization durations</td>
<td>Are estimated by the economical entities by applying the professional</td>
<td>Established in a centralized manner by normative acts, without the</td>
</tr>
<tr>
<td><strong>Amortization value</strong></td>
<td>Cost of the asset diminished with the residual value.</td>
<td>Entrance value.</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------</td>
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</tr>
<tr>
<td><strong>Residual value</strong></td>
<td>Is an element estimated by applying the professional reasoning and taken into account to establish the amortizable value.</td>
<td>This concept is not used.</td>
</tr>
<tr>
<td><strong>Amortization method</strong></td>
<td>Are not imposed certain methods, the entity having the possibility to establish the method type to apply. By the professional reasoning the methods are periodical reviewed.</td>
<td>Are imposed three methods of amortization (linear, digressive and accelerated), the entities, in many situations, not having the possibility of choosing for the amortization method.</td>
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**References**