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COMMENTS ON "IMPACT OF IFRS ON ROMANIAN ACCOUNTING AND TAX RULES FOR FIXED TANGIBLES ASSETS"

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For a long period of time, the Romania Accounting Standards ("RAS") for fixed tangible assets regarding the measurement, revaluation and depreciation, were largely similar to the related tax rules. Accordingly, we fully agree with the author's statement that "up to 2000, the measurement, revaluation, depreciation rules used in accounting were, with a few exceptions, the ones acknowledged from a tax point of view, arriving even in situations where the tax facilities related to the assets are granted only with the condition of their accounting recognition". As the author is mentioning "the change of relationships between tangible assets' accounting and taxation was also influenced by IAS/IFRS beginnings in Romania, even though this influence was not very immediate [...]".

Currently, the Romanian Accounting Standards (RAS) through OMFP 3055/2009 ("OMFP 3055") are closer than ever before to IFRS regarding the accounting for Property, Plant and Equipment ("PPE").

Under both RAS and IFRS the financial statements are prepared on a modified historical cost basis with a growing emphasis on fair value under IFRS and limited emphasis on fair value under RAS. However, certain adjustments such as impairment losses are not required for interim financial reporting, while revaluation of fixed assets carried at fair value is only allowed at year end, decreasing comparability and relevance of half yearly financial reports. Additionally, there is no guidance related for the calculation of impairment adjustments for tangible and intangible assets, investment properties, non-current assets held for sale, biological assets etc. – resulting in a diversity of interpretations and hence of accounting policies being applied in practice.

Under IFRS, "Depreciable amount" is the cost of an asset, or other amount substituted for cost, less its residual value while under RAS, the "Depreciable amount" is the cost of an asset or other amount substituted for cost.

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IFRSs do not prescribe a specific accounting treatment for the costs for demolishing a building in order to construct a new one while under RAS the costs for demolishing a building in order to construct a new one are expensed as incurred, as the author has noticed as well – "there are certain important differences [...]: provisions for dismantling, interests in the case of deferred payment beyond normal credit terms". Under IFRSs, when payment is deferred beyond normal credit terms, the cost of the asset is the cash price equivalent, which may be different from the cash flows discounted using a market rate of interest, while under OMF 3055, there is no reference to deferred payment.

Regarding useful lives and computation of depreciation, the author is stating that "even though, today the accounting depreciation and the tax one should be calculated separately, the detail rules enforced are similar and we can divine in this case too that the practitioners keep away from reaching too many differences". We only partly agree with this statement, as we have noticed that most of the multinational companies operating in Romanian are preparing periodically group reporting packages that are sent to the parent company for consolidation purposes. These group reporting packages are prepared in accordance with the parent company accounting manual that is mainly in line with IFRS. Accordingly, the economic useful lives as included in the fixed assets register for group reporting purposes are determined on operational and economic grounds by the management, being different from statutory-fiscal useful lives. Accordingly, we have noticed for most of these multinational companies operating in Romania, two sets of fixed assets registers: one for fiscal purposes and one for accounting purposes. We have noticed as well many Romanian listed companies adhering to this practice.

The author is stating that "[...] for the Romanian companies, an important tax incitation remains valid towards the revaluation of a category of assets - the buildings. We are talking about another tax – the tax on buildings – where the taxation standards establish rates between 0.25% and 1.50% [...]. These rates were /are valid for the buildings revaluated in the last three years only. In case of failure to revaluate the buildings, the rates ranked between 5% and 10%; nowadays the rules are even more restrictive: - rates between 10% and 20% for the buildings which were not revaluated in the last 3 years previous to the reference tax year […]".

In this context the author is stating that "more than 80% of the listed entities revaluate buildings and we could think this is for tax reasons". We only partly agree with this statement and consider, as we noticed from our auditing practice that these companies have two strong reasons for the periodical revaluation:

- the tax reason as mentioned above and,
- the accounting compliance reason in order to avoid having qualified opinion issued by the auditors in this respect (according to IFRS, the revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period).

As noticed above, although PPE related Romanian accounting standards are closer to IFRS than before, there are still differences. As annual financial statements are used as a baseline in evaluating the financial soundness of a company, many interested users of financial information are familiar with the provisions of Romanian accounting standards and may require additional information from companies as part of their review of statutory financial statements in order to arrive at an image that represents more truthfully the financial position and performance of a company. However, external investors may require a financial reporting "language" that is more familiar to them, is specifically designed to assist in investment decision making and minimizes the need for additional information which sometimes may be perceived as a lack of transparency.

Preparing financial statements according to a set of generally accepted accounting principles, accompanied by an unmodified opinion issued by an independent auditor is a method to address concerns regarding the access to credit or equity capital and may make the difference for a company seeking to gain the trust and support of finance providers. Improving communication with lenders and equity investors by providing high quality financial information may ease access to financing and decrease borrowing costs for local entrepreneurs.