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

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ABSTRACT

Romanian accounting and tax rules have evolved, after 1990, from an almost complete connection to a more and more clear de jure *disconnection. One reason for this development is the influence of the international financial reporting standards. Analyzing the relationship between accounting and taxation, we find some interesting evolutions in the field of tangible fixed assets. The current Romanian accounting standards include many detailed rules taken directly from the IAS 16 (the initial recognition and measurement, the revaluation, the depreciation of fixed assets), while the tax law doesn't follow the same way. Since 2004, the Romanian Tax Code states explicitly that the accounting depreciation is separate from the tax depreciation. However, we found, for Romanian entities listed on Bucharest Stock Exchange, that the accelerated method of depreciation (a tax one) is used sometimes in accounting. More than 80% of the listed entities revalue buildings and we could think this is for tax reasons.*

accounting vs. taxation, RAS vs. IFRS, depreciation, revaluation

INTRODUCTION

The evolution of Romanian accounting after 1990 was rapid and spectacular. The same can be said about Romanian taxation. From rules specific to a fully centralized economy to the assimilation of EU regulations, the way was long and not very easy. Several previous studies identify stages in the evolution of the Romanian Accounting Standards (RAS): Barbu (2002); Ionaşcu (2003); Calu (2005), Ionaşcu *et al*. (2007); Feleagă *et al*. (2009); Albu *et al*. (2010a); Barbu *et al*. (2010); Filip and Raffournier (2010). Taking into account the topic that we are interested in, we identify 3 important phases (with possible subdivisions):

- the first phase – a transitory one – (1990 – 1993): Soviet-origin accounting standards adapted to the Romanian market economy at its beginnings;

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- the second phase (1994 – 2000 extended up to 2002 for certain companies) – accounting standards on the model of the European Directive no. 4;
- the third phase (from about 2000 to date) – IAS/IFRS are coming and, starting with 2006, a wider group of entities comply with the European Directives and IFRS rules.

Tangible asset accounting and taxation provide us a wide field of analysis and the transition from a continental oriented accounting with French influence to the one influenced by IFRS was also accompanied by a *de jure* disconnection between taxation and accounting.

This paper aims to highlight IAS/IFRS influence on Romanian tangible asset accounting rules, but also the way in which these standards were and continue to be (dis)connected with the tax rules. For this purpose, we are interested not only in the direct adoption of some detailed rules form IAS 16, but also by their suitability in the context of the Romanian accounting and taxation rules. Therefore, we performed the documentary analysis of the Romanian standards after 1990, but mainly after 2000, comparing them to the provisions of IAS 16 and confronting them with the tax provisions. At the same time, we also identified items in which rules of IAS 16 were literally adopted, but their enforcement in Romania is performed in an incomplete manner, in the absence of a more general frame, which corresponds to the essence of the international standard. In order to illustrate the current manner in which the accounting rules about tangible assets are enforced, we collected and analyzed data on the entities listed at Bucharest Stock Exchange (BSE) from 2004 to 2010.

Tangible assets are very present in literature. We found general comparisons between RAS and IAS/IFRS in several studies: Bunea (2008); Manolescu and Roman (2008) Feleagă *et al*. (2009); Pereş *et al*. (2009)Ionaşcu *et al*. (2010); Ionaşcu *et al*. (2011); and many others. For tangible assets Brabete and Drăgan (2009), Cioară (2010), Cozma Ighian (2011), Danciu and Deac (2011), Dănescu *et al*. (2011) provide us very useful information or findings. The relationship between accounting and taxation is also very present in the literature: the World Bank Report (2003), Manolescu and Roman (2008), Filip and Raffournier (2010), Ionaşcu (2011), Dănescu *et al*. (2011), Istrate (2011). Strouhal *et al*. (2011) analyze similarities and dissimilarities between national accounting standards and IFRS end IFRS for SMEs for some ex-communist countries and found that, in the area of tangible assets, RAS are less harmonized with IFRS for SMEs.

In the following paragraphs, we identify the accounting and tax definitions of tangible asset accounts in the first two phases of the accounting evolution in Romania (section 2), then we try to identify the IAS/IFRS influence in the recognition, classification and initial measurement of tangible assets (section 3). In section 4, we compare accounting and tax rules for the tangibles assets depreciation and in section 5 we treat tangible assets revaluation. We will continue with section 6 – accounting and taxation rules for exchanges of assets – and close with the conclusions and the limitations of the study.

1. ACCOUNTING AND TAX RULES FOR PPE FOR THE PERIOD 1994-2000/2002

Before IAS/IFRS, the main models for the RAS were (European) continental, with an evident translation from East to West.

1.1 1990-1993 – the very close connection between accounting and taxation

The first stage (1990 - 1993) is influenced by Soviet accounting, amended in 1990. We are talking about a single-circuit bookkeeping (monist): expenses are recognized according to their destination and both costs calculation and tax information presented to users were the responsibilities of this single-circuit bookkeeping. The rules applicable to tangible assets accounting come from the Communist period and they are entirely assumed by the first tax regulations (rather timid however) regarding the income tax. We assist to an initial obvious and natural connection, for that time, between taxation and accounting. The accounting rules for the measurement and the depreciation of tangible assets are entirely assimilated by the income tax law which grants certain tax facilities, such as lower tax rate (Government Decision no. 741/1990) or the tax deduction by 50% for invested profit (law no. 12/1991, Government Decision no. 804/1991). The text of the tax law at that time suggests nothing about the differences between tangible assets' accounting and taxation. Therefore, Government Decision no. 741/1990 establishes only a general restriction according to which ”the taxable profit represents the difference between revenues and expenses, of which we deduct the amounts that, according to the law, are covered directly from the financial results”. Nothing special about depreciation – it was therefore deductible, provided that the relation with the income is demonstrated. Law no. 12/1991 and Government Decision no. 804/1991 preserve this general deductibility rule, without any mention on tangible assets depreciation or other limitations.

Another aspect that shows us the close connection (*identity*, in the terms of Lamb. et. al, 1998) between accounting and taxation is related to the revaluation of the assets from that period. Before 1990, prices were managed in a centralized manner; therefore very stable (which did not exclude certain amendments subject to governmental decisions). After the political shift, prices rose so high that made the accounting numbers not always be covered in terms of actual purchase power. In fact, Romania entered, as Communism fell, in a period of significant inflation[1] and, as a feedback to prices change, Romanian authorities allowed tangible asset revaluation. Until 2000, the revaluation was accepted only as a consequence of a government decision and followed because this implicit tax recognition.

1.2 The initial influence of the European Directive over the Romanian accounting regulations

Starting with 1 January 1994, in a first wave of reforms in the field (Albu *et al*., 2010b) the Romanian account standards changed the rules, trying to adapt the European Directive no. 4 to in a Romanian way (see also Ionaşcu *et al*., 2010). Government Decision no. 704/1993 makes operational the Accounting Law no. 82/1991 and comes also with new tangible assets definition, evaluation and depreciation criteria. In virtue of the Romanian accounting tradition and in full compliance with the taxation standard, the definition of the fixed assets has two components related to the useful life and the cost. This manner of identifying tangible assets is preserved in Romania up to 2005 inclusively, till the entrance into effect of the Order of the Ministry of Public Finances 1752/2005. The reference to this minimum cost is compulsory even now from a taxation perspective, reason for which it is often accepted also in accounting. Therefore, we often arrive, mainly in small and medium sized enterprises, to a voluntary connection between accounts and taxation in the attempt to simplify the books and to avoid tax records which would double the book records.

On the other hand, the provisions of Government Decision no. 704/1993 on tangible and intangible assets are preserved and developed in a special law on fixed assets – law no. 15/1994. The latter is valid for tax purposes up to the coming into effect of the new Tax Code, on 1 January 2004.

Over this entire period (from 1994 to 2000 - 2002) the accounts standard was largely similar to the tax rule[2], both with regard to measurement, revaluation and depreciations. For instance, the main depreciation methods acceptable from accounting and taxation perspectives were the same in both sets of standards – straight line, diminishing balance method and accelerated method – without taking into account the fact that the accelerated depreciation, for instance, does not necessarily reflect the correct asset depreciation. As a matter of fact, from 1995 to 1997, the use of the accelerated depreciation method was conditioned by the approval obtained from tax authorities.

The close connection between tangible assets accounting and taxation in this period is also confirmed by a compulsory taxation standard for accounting – in order to increase the taxable basis, the tax authority limited the depreciation deductibility according to the degree of asset use and imposed the recording into books of this depreciation only, the difference being delivered in an off-balance sheet account. The failure to record part of the depreciation in the books because of a tax regulation was an interference of the Tax Authority in the entity's management, with negative effects on the results and equities of enterprises. Over this period, tangible assets taxation rules start detaching little by little from the accounting rules. Therefore, there appear tax facilities as deduction of an all-inclusive amount when investments are made, without any obligation to make distinct and explicit accounts of this facility.

1.3. IAS/IFRS in Romania – a significant change

The starting point of the third stage is a very important moment for the Romanian accounting[3]: the attempt to adapt in Romania certain Anglo-Saxon rules: the international accounting standards – IAS. This graft on the body of the Romanian accounting will require a long time for acceptation and assimilation. In this stage, we can identify several sub-stages:

- from 2000 to 2005, the international standards were applied, at first experimentally and then compulsorily, from 2001, for public entities and for large-sized companies;
- from 2006, IAS/IFRS enforcement is facultative, in the consolidated financial statements, so as from 2007 the regulation 1606/2002 of the European Commission is applied, by which IFRS become compulsory in the consolidated financial statements of the listed companies;
- an important step is undertaken starting with 2012, IFRS becoming compulsory for banks and in their individual accounts.

The reasons why the Romanian standard setter chose, in 1999-2001, the familiarization of the Romanian accountants with IAS/IFRS are related to the strategic orientation towards EU, but also to the relationship with IMF and with the World Bank. These two institutions allotted important financing to Romania, suggesting, among other things, that IAS would be more appropriate to their needs for accounting information.

2. THE IMPACT OF IAS/IFRS ON THE DEFINITION, CLASSIFICATION AND EVALUATION OF PPE IN ROMANIA, AFTER 2000

At first, the international accounting standards found in Romania a field poorly prepared for such a significant change. Except some academics, some officers and the representatives of the big accounting and audit companies, the other Romanian specialists built their activity from scrap. Even if several accounting basic principles are the same, regardless of the account reference system enforced, IAS/IFRS came (and they are still coming) from a different culture compared to the one of the Romanian accountants, which made/makes difficult their complete assimilation[4].

Tangible assets represent one of the topics where IAS/IFRS brings several new things compared to the RAS of that period. It seems that IAS 16 (and other standards) has been so convincing that many of their details rules are found in the RAS harmonized with the European Directives. Feleagă *et al*. (2009) compare the data provided by the Romanian companies both according to RAS and to IFRS and they notice a range of important differences, but they don't list, however, any direct reference to IAS 16 in the sources of differences[5].

On the other hand, the tax regulation reach a certain maturity which makes them disconnect more and more visibly from the accounts standards[6], at least *de jure* (Istrate, 2011). As follows, we will try to identify IAS/IFRS influence on the RAS, taking also into consideration the tax rules - the main topics that we retain in this analysis are: tangible assets' classification, measurement of cost, depreciation, revaluation, change of assets[7]. We do not stop at the tangible assets impairment, because the Romanian tax rules does not recognize at all this kind of depreciation[8] - Filip and Raffournier (2010) show that, up to 2005, assets depreciations and provisions represented an extremely rare practice in Romanian companies and it appears only when they benefit from tax deductions[9].

2.1 Accounting and tax definitions of PPE in Romania

Up to 2002, the RAS (Government Decision no. 704/1993) stated two conditions for classifying an asset as fixed assets (*mijloc fix*): useful life and a minimum cost, perfectly compatible with the tax rules. Between 2003 and 2005 (by OMPF 306/2002), a third condition was added to these ones: the destination. After 2006, IFRS influence made that the Romanian accounts standard (OMPF 1752/2005, continued by OMPF 3055/2009) be limited to stating two conditions only[10] The tax rules followed up on the RAS, taking into consideration, at first, two conditions; however, starting with 2004, the Tax Code takes over the three conditions (duration, destination, minimum cost), maintaining them till today. This small difference can lead to divergent accounting and tax solutions, with important effects on the taxable income. Practically, we can suppose that in many companies (mainly among the small and medium sized ones), the administrators and accountants chose to observe the three conditions in accounting, for the purpose of simplifying the records – therefore, we agree with the conclusion drawn by Manolescu and Roman[11] (2008). We are confronted here with an example of accounting procedure taken over by the taxation and which returns in the accounting even though it is not compulsory anymore – from a situation of aligning taxation to the accounting, we reached, in a very short period, in a situation of accepted pollution of accounting by taxation. In the case of IFRS for SMEs, Albu *et al*. (2010b) notice a connection between RAS (OMPF 1752/2005) and IFRS with regard to defining tangible assets, but they assess that there can be differences caused by companies' orientation towards taxation.

2.2 Major differences between IFRS and RAS in the classification of tangible assets

The Romanian classical term which designates the most important component of the tangible assets was, up to 2002, *mijloace fixe*. Starting with 2003, for certain enterprises, or with 2006, for the others, this term disappears from the RAS, which prefer more precise notions which designate, within the tangible asset category, installations, equipment, devices, furniture, etc. However, from a taxation perspective, the term *mijloace fixe* has been preserved up to now.

In order to classify the tangible assets, we retain as main criterion the manner in which they are recognized as an expense, by depreciation/amortization or only by impairment. All tangible assets from Romanian accounting can be classified in one of these two categories. In order to sustain the comparison with IFRS, the depreciation criterion has to be complemented with the measurement after initial recognition – we take into account impairment, but also revaluations. The main classification differences with regard to tangible assets are related to the failure to recognize or to the partially recognize (still) by the RAS, of the categories of investment property, non-current held for sale, biological assets. For all these, the recognition rules of IFRS differ significantly from the ones of RAS (table 1).

Table 1. **Differences in the classification of tangible fixed assets: RAS vs. IFRS**

Item of tangible assets		**Assets with a finite useful life**	**Assets with a indefinite useful life**	**Investment property**	**Non-current assets held for sale**	**Inventories**	**Biological assets**
Lands	RAS		x				
	IFRS		x	x	x		
Buildings	RAS	x				x	
	IFRS	x		x	x		
Equipment	RAS	x				x	
	IFRS	x			x		
(Living) animals and plants	RAS	x				x	
	IFRS						x

The Romanian tax rules accepts tangible assets' classification proposed by the RAS and, until 31 December 2011, there was no explicit reference to the acceptance of any other category proposed by IFRS. Starting with 2012, the Romanian credit institutions apply IFRS in the individual accountings too, which lead to a modification of the Tax Code, in the sense that there appears the explicit mention that the gains and loses from the fair value evolution of the investment properties are non-taxable/non-deductible on their registration date.

2.2 Initial cost of PPE

As a general principle, the Romanian accounting standards establish the original cost according to the manner in which the entrance occurs: purchase, own production, equity to the registered capital, reception on a free basis. The original cost identified is called, respectively, acquisition cost[12], production cost, equity value and fair value. The tax rules follow the same general principle; therefore, apparently, there are no discrepancies between accounting and taxation.

Once with IFRS intervention in Romania, there appears the possibility of fairing the cost with elements unrecognized from a tax point of view: interests in the case of deferred payment beyond normal credit terms, provisions for dismantling, removing and restoring the site[13]. At first, in virtue of OMPF 94/2001, using these mechanisms was compulsory for the involved entities. Starting with 2006 and up to 2008, these two sources of differences between the accounts standard and the tax one disappear. Starting with 2009, the accounting obligation of constituting provisions for dismantling, removing and restoring the site is reintroduced, this rule remaining valid till nowadays.

As for the rest, the tax content of the original cost is rather thinly defined, which allows us state that the account criterion of initial recognition are accepted from a tax point of view.

3. DEPRECIATION OF PPE BETWEEN ACCOUNTING AND TAXATION

Up to 2003, the accounting and tax depreciation was very close, with certain exceptions which could occur when the taxpayers benefited from certain tax facilities. The Tax Code, entered into force on 1 January 2004, comes with an extremely interesting remark: the tax depreciation starts being calculated independently of the accounting depreciation[14]. This rule has effects on the tax return too: the accounting depreciation is integrally considered non-deductible expense, while the tax depreciation, which comes from a special tax record, appears integrally as tax deduction.

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. Ionaşcu *et al*. (2011) analyze the institutional factors which affect the reporting quality in compliance with IFRS in Romania and find, in the answers received from a group of financial chief officers of the enterprises listed at Bucharest Stock Exchange, that an important element of difficulty in enforcing IFRS in Romania is precisely the connection between accounting and taxation (without particularizing on a certain accounting category). Dănescu *et al*. (2011) analyze the situation of many enterprises from a Romanian county and draw the conclusion that in the case of depreciation (but also in the provisions one) the taxation standards are enforced to a greater extent than the accounting ones.

3.1 Useful life of PPE

The depreciation period is established, according to OMPF 3055/2009, taking into account the useful life and the conditions of use. At a first reading, these conditions are compatible with the ones from IFRS, the latter ones being more detailed. From the point of view of the tax rule, the depreciation period has to be established within the rules imposed by a normative document (Government Decision no 2139/ 2004). This stipulates an interval with minimum and a maximum limit, from which the entities have to choose. In many cases, it is probable that the accounting duration frame in this interval[15], so as not to appear differences between accounting and taxation. However, many practitioners do not complicate to choose different durations, so that accounting connection with taxation (in the sense of the proper alignment to the requests of the tax authority) in this point is highly followed. After the initial choice of the depreciation period, the Romanian standards (accounting and tax) are significantly different from IFRS, in the sense that the life duration cannot be reviewed anymore[16]. Up to 2009, RAS used to forbid any review of life duration, so as, starting with 2010, to allow duration modification, in exceptional cases only, to significant changes of the conditions of use. This small opening allowed by the accounting standard is not followed in the same sense by the tax rule – there appears a source of small differences between the accounting and taxation of the depreciable tangible assets. For banks, which enforce IFRS in their individual accountings starting with 2012, the differences between accounting and taxation can become even more important.

The interdiction to amend the life duration of certain assets or the difficulties in performing this review lead, on the one hand, to the appearance of techniques of avoiding the rule or, on the other hand, to situations in which certain assets operate for a long period after the expiry date of the life duration allotted at the beginning[17].

3.2 Depreciation method

The RAS and the tax rules evolved together and, with few exceptions, they stipulate the same depreciation methods – there are premises for ensuring the complete identity between accounting and taxation. From 1994 to nowadays, the accounting standard has been recognizing the straight line method, the declining balance method (ro. *amortizare degresivă*), the accelerated depreciation and the units of production method. The tax rule lists the same methods, with the additional remark that the last three can be enforced only in the case of certain categories of PPE specified by the law. At the beginning, the accelerated depreciation could even be enforced only with the approval of the tax authority. From a tax point of view, the enforcement of the accelerated method or even diminishing balance method can be understood as a tax facility and companies' option for these methods frame in their efforts of tax optimization. However, from an accounting point of view, the accelerated method can lead to less credible information regarding PPE carrying value and the operating expenses from the profit and loss account, which raised question marks on the justification of the option for the accelerated method in accounting. Later in 2010 (by OMPF 3055/2009) the Romanian standard setter recognized in an explicit manner that the accelerated depreciation is justified in rare cases in accounting.

In 2007 financial statements[18] of Romanian listed companies (at BSE, categories I II and III), we found that the straight line method is the most used, as expected (Table 2). The others depreciation methods also are present.

Table 2. **Depreciation methods for Romanian entities listed at BSE, in 2007**

	Number of entities	(%)
Only straight line method	54	88,52
Straight line and declining balance method	1	1,64
Straight line and accelerated	3	4,92
Straight line, accelerated and declining balance method	3	4,92
Total	61	100,00

On another level, Manolescu and Roman (2008), found that 20% of entities using the accelerated method – their sample is very different: auditors of non listed companies. On a sample of 20 firms (not listed) in one Romanian county, Danciu and Deac (2011), found that 87% use only the straight line method, 9% - the straight line and the accelerated methods, and 4% straight line, declining balance method and accelerated methods

4. COST MODEL VS. REVALUATION MODEL

Up to IAS/IFRS entrance in the Romanian accounting, the option for assets revaluation was not treated as a change of accounting method. We saw above that, in the 90's, the Romanian companies were obliged or had the possibility of revalue the PPE, only on the basis of a normative document issued by the government. In fact, Romania is not the only country in this situation: Kvaal and Nobes (2010) shows us that in France[19] and Spain the basic rule in the measurement after the ignition recognition of PPE was the cost model, except certain occasional revaluations performed based on some government regulations. Only in 2000 the free revaluation was allowed in Romania, at the end of the year, the permission being granted also by a special Government Decision (Government Decision 1553/2003). Starting with 2004, there appear the premises of the divergence between accounting and tax revaluation.

4.1 Accounting rules in the revaluation of PPE

For a long period of time, the revaluation of the tangible assets in Romania [20] has been understood as an updating technique to the inflation, in the absence of a complete inflation accounting[21]. This approach is not fully convergent with IAS/IFRS spirit[22]. There appear at least a few divergence elements:

- ✓ the lack of consistency in revaluation – according to IFRS, if we choose the fair value model, we must take into account all the significant modifications of the fair value between a closure and another;
- ✓ the failure to enforce the rules specific to the changes in accounting policies: the passage from the cost to the fair value can be assessed as correct; on the contrary, giving up to the revaluation model did not lead to the canceling of the previous revaluations, except a few cases[23].
- ✓ the enforcement of very few entities of the inflation accounting over the periods up to 2003, inclusively.

Another feature of the revaluations performed till 2003 is the prohibition of including in the operation the integrally depreciated assets. By this explicit prohibition, the accounting standard setter (and, at the same time, the tax authority) recognize implicitly the existence of assets with expired life duration, but which are still maintained in use. From this point of view, the RAS are not very compatible with the IFRS, in the sense that, in the latter, the obligation to revise each year the depreciation duration allows the avoidance or significant limitation of the entrance in the situation of maintaining in use an integrally depreciated tangible asset. Therefore, the problem of revaluating the assets with zero carrying amount is not raised in the case of IAS/IFRS. But, for the Romanian case, at the beginning of IAS/IFRS enforcement in Romania, there appeared revaluations situations of this kind of assets, after an insufficient restatement with the occasion of the transition to IAS[24].

A component of Romania's preparations for the accession to the EU was also the unification of the accounting standards of the individual entities by adopting an accounting standard become *compliant with the European directives* (OMPF 1752/2005 replaced by OMPF 3055/2009). Compared to directives' text, the Romanian standard is much more complete, including by the taking over of several detail rules of IAS/IFRS[25]: the use of the fair value, the revaluation techniques (by eliminating or not the accumulated depreciation), the revaluation of all the assets of the same category, the regular performance of revaluations, the obligations of presenting information regarding the performed revaluations, the transfer of the revaluation surplus to equity…

4.2 Tax rules for the revaluation of the PPE

The revaluations up to 31 December 2003, performed in virtue of certain special normative documents, were recognized from a tax point of view, in the sense that the all the new depreciation charge was considered deductible - later in 2002 it is established that the revaluation surplus shall be taxed at the change of its destination, namely when it will be used in order to cover losses, for the inclusion in the registered capital or for dividends payment. This way, the revaluation also used to fulfill the role of temporary tax facility, because the entities could manage in a discrete manner the moment of destination change.

The Tax Code entered into force on 1 January 2004 forbids the tax acknowledgement (in the context of the income tax) of the revaluations performed starting with this date, rule which is valid up to 2007 inclusively, when the additional depreciation generated by the revaluations is considered again as deductible. This rule remains in force with a significant amendment in 2009: the additional expense is deductible, but the revaluation surplus becomes taxable by installments, once with the depreciation of the revalued assets. This way, the revaluation (in the situation in which the fair value exceeds the net accounting value that would have been reached in the absence of any revaluation) becomes a neutral procedure from the point of view of the income tax.

The relatively reduced inflation after 2004 could suggest that assets' fair values modifications become less important after this date. Therefore, 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% (in the first version of the Tax Code, valid starting with 1 January 2004, the rates were between 0.50% and 1.00%). These rates were /are valid for the buildings revalued in the last three years only. In case of failure to revalue 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 revalued in the last 3 years previous to the reference tax year;
- rates between 30% and 40% for the buildings which were not revalued in the last 5 years previous to the reference tax year.

In these conditions of over-taxation of the buildings, we can understand the option of many Romanian companies of revaluating buildings or even of performing the global revaluation of PPE. Bunget and Dumitrescu (2012) even think that the option of many companies to perform a revaluation forces the principle of methods' permanence and they think that this behavior is determined by the buildings tax (their study analyzes a group of companies, in terms of their tax audit).

4.3 Options of the Romanian listed companies in the field of the PPE revaluation

We stated above that, in the 90' and at the beginning of 2000, assets' revaluation represented mainly a technique of exceeding the difficulties generated by the high inflation, in the absence of an inflation accounting[26]. Starting with 2006, once with OMPF 1752/2005, we can talk of a greater stringency in establishing the detail rules regarding the reassessment, in the sense of their almost complete alignment to the international standards.

Table 3. **Cost model and revaluation model for listed the companies at BSE, 2007**

	Buildings		**Other tangible assets**	
	Number of entities	**%**	**Number of entities**	**%**
Revaluation model	53	85%	34	56%
Cost model	8	15%	27	44%
Total	**61**	**100%**	**61**	**100%**

Cozma Ighian (2011), analyzing auditors' answers to a questionnaire regarding the fair value in Romania, finds that the larger number of respondents think that assets' revaluation is recommended in order to present fairly the company. We tried to see in what measure the revaluation represented an option for the Romanian companies listed at Bucharest Stock Exchange. At the level of 2007, of the financial situation of these companies, we extracted the method used for the measurement after the initial recognition of PPE[27]. Therefore, we obtained data for 61 companies of a total no. of 79. In table 3, we chose to separate the buildings from the others tangible assets[28]. The data in Table 3 confirm Romanian companies' attraction for tangible assets' revaluation[29] - more than a half use the fair value model. The options reach at 85% for buildings and we can state as one of the explanations the significant impact of buildings tax, which can multiply by tens of times in the absence of buildings' revaluation. Maybe the advantages obtained as a consequence of the revaluation cover the costs of this operation[30]. Fair value use in evaluate the assets is also invoked in connection with the economic crisis – Pal (2011) notices that the companies which performed a revaluation before 2008, continue even after this date with the fair value model.

However we must not forget that the revaluation contributes to the increase of equity. We can suppose that the option for the fair value model in the case of certain entities has also the purpose of making the company more attractive from the point of view of the dimensions of shareholders equity, namely of contributing to better financial analysis ratios in the relationship with the investors, analysts and creditors. Barlev *et al.* (2007) identify, in the literature, a list of reasons for which the companies retain the fair value model for the non-financial assets: the access on the financial market, a better image of the balance, reaction to certain financial constraints or to investments opportunities.

The data of the financial situations of the Romanian companies listed at Bucharest Stock Exchange allow us to make an analysis of the impact of the revaluation surplus, presented in the balance sheet. We gathered data for 79 companies, from 2004 up to 2010 inclusively. The number of observations on each year is not equal, either because of the impossibility to find the financial situations, either because of the listing ulterior to the year 2004, either because of the delisting before 2010. Therefore, we obtained 63 remarks for 2004, 71 for 2005, 77 or 78 for the other years. We have a total number of 522 remarks for 79 companies. Of them, for 7 remarks we didn't find any kind of data, in 45 situations (9%) the revaluation surplus are 0, while for 470 remarks (90%) we found some revaluation surplus in the balance sheet. Their presence does nothing but confirming the options identified in Table 3 with regard to the fair value model. We find revaluation surplus even in the situations where the entities declare the use of cost model, which proves a partial enforcement of the rules specific to changing accounting policies: a revaluation was performed and then this one was abandoned, passing to cost model, without eliminating the existing revaluation surplus on the date of method change.

In order to see revaluations' impact on companies' equity, we compared companies' equity as they were declared in the financial situations with companies' equity after the deduction of the revaluation surplus. The first notice is that, from 470 remarks, in 22 cases, after deducting the revaluation surplus, companies' equity become negative: the 22 remarks refer to 7 different companies, some of them having such a situation on several years. In other 8 situations with negative equity before the deduction of the revaluation surplus, after this operation, companies' equity become by about two times lower. After the elimination of the observations where there are no revaluation surplus, but also of the ones with negative equity before and/or after the elimination of the revaluation surplus, we obtain 438 observations, on the basis of which we calculate an average of companies' equity decrease in the absence of the revaluation surplus (Table 4).

The average of companies' equity decrease is of 33%. This cipher, together with the data presented in Table no. 4 allows us to assess that the revaluation surplus have an important contribution to the dimension of the equity of the companies listed at Bucharest Stock Exchange[31]. If we discuss in terms of weight of companies' capital in total assets[32], then the elimination of the revaluation reserve makes that the average descend from 59% to 44%, which can have significant effects on companies' image in for analysts and creditors[33]. In an empirical study based only on data from 2008 of the companies listed at Bucharest Stock Exchange, Cioară (2010) draws the conclusion that the revaluation is not influenced by entities' leverage, even though many of the studies quoted in this paper state the opposite[34].

Table 4. **Decrease in equity, after the elimination of revaluation reserve**

Decrease interval	Number of observations
Up to 20%	60
Between 20% and 40%	129
Between 40% and 60%	82
Between 60% and 80%	58
Between 80% and 99,99%	16

5. EXCHANGES OF ASSETS –TAX RULES LEAD

Up to 2010, RAS did not use to offer explicit solutions for the recognition of exchanges of assets. On the other hand, the tax rule[35] has established since 1993 that assets exchange (and services exchange) has the effect of two concomitant deliveries/services, without insisting too much on the manner in which the valuation of the assets involved in this type of transactions is performed. Therefore, the Romanian practitioners solved an accounting problem with tax instruments, ensuring the identity of the two treatments. Even IAS/IFRS appearance in Romania did not succeed in changing the situation. In 2010, OMPF 3055/2009 introduces for the first time a rule for the exchange of assets. This is nothing but the continuation of the old taxation rule – it is compulsory to register the sale and purchase, being forbidden to offset any revenue with the expenses related to this kind of transaction. In this case neither, there is any explicit reference to the valuation of the exchanged assets. Therefore, the Romanian solution is a very simple one and it has the important advantage of coinciding with the tax solution.

But, if we look at the IAS/IFRS, we see that the nuances in these standards oblige to much more care with the occasion of assets exchange: we must establish whether the exchange has a commercial substance or not (in IAS 16 and IAS 38) or whether the goods or services are similar or not (in IAS 18). All these elements may lead to significant differences between what happens in Romania and the aspects stipulated by IFRS in the field of tangible assets' exchange.

CONCLUSIONS

There is a spectacular evolution of the rules regarding the tangible assets after 1990, in RAS. The same kind of evolution can also be noticed with regard to the tax rules. Comparing the two, the relationship between accounting and taxation in the tangible assets area evolved from a complete identity to a more and more visible *de jure* disconnection, even though in practice the things must be nuanced in the sense of a persistent – and often, opportune – connection. Therefore, 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 a matter of fact, in the field of assets accounting (and not only), the tradition, the simple calculations and the tax implications play an important role, even in the conditions of IFRS generalized enforcement (Nobes, 2005).

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 and manifested rather at the rule level that at the one of the accounting practice.

With regard to assets' initial measurement, definition and criteria, IFRS influence is obvious: RAS arrives to give up the value criterion, maintaining only the purpose and duration criteria, as in IAS 16. The taxation standard aligns too, retaining the two criteria mentioned above, but it also maintains the minimum value, limit which continues to be preserved by a lot of accountants.

The classification of the tangible assets of RAS differs significantly of what we find in IFRS: we don't have (yet) Romanian correspondents of the notions of investment properties, biological assets or non-current assets held for sale. Where IFRS enforcement becomes compulsory in the individual financial situations (banks, starting with 2012), the taxation rules minds mentioning that the differences appeared in this kind of structures specific to IFRS shall not benefit from tax recognition.

At tangible assets' initial measurement, the current rules (OMPF 3055/2009) are very similar to IFRS: we can ask ourselves in what measure practitioners apply them integrally. However, there are certain important differences compared to the taxation standards: provisions for dismantling, interests in the case of deferred payment beyond normal credit terms.

In the tax regulation valid starting with 2004, the tax depreciation disconnects from the accounting one. This creates for the Romanian companies the premises of two distinct evidences, which is not precisely on accountants' liking, mainly in the small and medium-sized companies. There can be major differences between RAS and IFRS with regard to the depreciation period, but also with the depreciable amount and the depreciation method. For instance, there is still a range of Romanian companies which declare that they apply the accelerated depreciation in accounting, in spite of the purely tax character that it presents. The weight of this companies is of about 10% among the companies listed at Bucharest Stock Exchange (on data from 2007), but Manolescu and Roman (2008) identify, in another group, 20%.

Tangible assets' revaluation represents a point in which, after a long domination of the taxation standards, the Romanian accounting tried to emancipate. Therefore, RAS took over almost literally the revaluation rules of IAS 16, without the effective enforcement take necessarily into account IFRS spirit. There are important tax reasons to revalue some categories of assets, reasons which are not related anymore (since 2009) to the profit tax, but to the buildings tax, which be multiplied by ten in the absence of the revaluation in the last 3 or 5 years. Therefore, in the case of the companies listed at Bucharest Stock Exchange, 85% revalue the buildings, while 54% revalue other categories of assets. Besides the tax reasons, Romanian companies also revalue in order to have a better image in front of the users. From the analysis of the accounting numbers published by the Romanian companies listed at Bucharest Stock Exchange, we notice that the elimination of the revaluation surplus from companies' equity can lead to their significant decrease – on an average, by 33%. We arrive even in the situation that in the case of 22 observations (corresponding to a number of 7 companies), companies' equity become negative. It is obvious that the revaluation influences the leverage too.

The Romanian rule of accounting the assets exchange is very recent (OMPF 3055/2009), it coincides with the taxation standard and it is much simpler than the one found in IFRS.

The limits of the study are found mainly in its descriptive character, in the absence of certain elaborated statistical processing, in the small number of entities took into account (this limit can be explained by the dimensions of the Romanian financial market), in the presentation of depreciation method for only one year. Am empirical research based on interviews with financial directors or auditors could permit us to find more about the manner in which Romanian entities adopt and adapt accounting rules form IFRS. It would also be interesting to perform a comparison with other countries from the category of the ones which got through the post-Communist transition.

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[1] Official data on the inflation in Romania (http://www.insse.ro/cms/rw/pages/ipc.ro.do, accessed at 21.01.2012) are very relevant: from 1.1% in 1989 (last year of completely centralized economy), we pass to 5.1% in 1990; 170.2% in 1991; 210.4% in 1992; 256.1% in 1993... Only in 2005, Romania reached an inflation rate below 10%: 2003 is the first year without hyperinflation.

[2] There is an important exception – 1995 and 1996 – the large taxpayers restated their assets and liabilities for tax purposes, to take into account the inflation. This restatement was not followed in accounting.

[3] Ionaşcu *et al*. (2010) talk about an important cultural paradigm shift, substituting a vigorous patrimonialist accounting culture, with a new one, based on opposite values. Trabelsi (2010) found that the actors of this shift would need to get special skills and experiences in order to switch to a new accounting culture, and thus succeed its accounting harmonization.

[4] A World Bank report (2003) recognize that the transition to full IFRS will require a culture shift to reduce the influence of tax accounting on general-purpose financial statements.

[5] We could find some indirect influences: impairment of assets, borrowing costs, and deferred taxation.

[6] Despite this *de jure* separation between accounting and taxation, it seems that there is still a very close *de facto* book-tax connection. For Filip & Raffournier (2010), the influence of the tax rules over the accounting is an implicit assumption. King *et al*. (2001) found that, despite the clear separation between the tax law and the accounting law, in practice, the relationship is much less clear.

[7] We will not discuss here about leasing operations, disposal of assets, subsequent costs.

[8] On the contrary, RAS (OMFP 3055/2009) provide a close alignment with IAS 36.

[9] From 522 year-observations for companies listed ob BSE (2004-2010) we find provisions in 323 cases.

[10] Brabete & Drăgan (2009) present comparative figures concerning PPE depreciation - RAS vs. IFRS. Pereş *et al*. (2009) identify the main differences between RAS and IAS 16.

[11] Manolescu and Roman (2008) found that 75% of auditors questioned believe that tax rules were very followed in determining the useful life and depreciable amount in accounting.

[12] In IAS/IFRS, we don't find this term – acquisition cost – but only *cost*: a better formulation.

[13] Differences in evaluation of tangible assets between national GAAP and IFRS arise nor only in Romania. Klimczak (2011) found some important differences in Poland.

[14] Gîrbină *et al*. (2011) found the same *de jure* book-tax disconnection for PPE.

[15] Danciu and Deac (2011), in a small sample (20 entities), found that 82% follow the tax rule in determining the useful life of PPE.

[16] IAS 16 states that the residual value, the useful and the depreciation method shall be reviewed at least at each financial year-end.

[17] This latter situation can have material effects on the revaluation of PPE.

[18] We used individual financial statements because the IFRS are mandatory only in consolidated financial statements and there are very few entities that consolidate. Bunea (2008) found only 4 entities (from 57) applying IFRS.

[19] Demaria & Dufour (2007) found that, in France, after the 2005 transition on IFRS, 94% of companies maintained the cost model.

[20] Barlev *et al*. (2007) found about 48 countries that allow revaluation of non-financial assets. Lin & Peasnell (2000) found that revaluation has been a common practice in UK, Netherlands, Ireland Australia and other countries.

[21] Missonier-Piera (2007) states that the need to revalue certain non-current assets has its roots in the debate over the effects of changing prices, but firms may also consider upward revaluations to reveal their true economic and financial situation to investors in order to reduce information asymmetry.

[22] Filip & Raffournier (2010) found that revaluation of tangible assets in Romania between 1990 and 2001/2002 are for tax purposes only; the World Bank report (2003) states that, for Romanian Banks, PPE accounting rules (including revaluation) may conflict IAS 16.

[23] Istrate (2006) found that only 2 of 14 firms (all of them under IAS, in 2001 -2005) apply IAS 29 aplică IAS 29 and only one of them cancelled previous revaluation.

[24] From interviews conducted with officials of a large Romanian company applying IAS/IFRS between 2001 and 2005, I was surprised to find that it revalued many buildings fully depreciated, according to IAS 16. This was possible in the absence of an express interdiction in this regard. The auditor (a Big 4) has no objection. We must say that the company reported very important losses and PPE revaluation resulted in an appropriate increase in equity.

[25] The mandatory application of IAS (for some companies) in 2001-2005 had the merit to prepare Romanian accountants for an easier assimilation of some international reporting concepts in the next Romanian accounting regulations (OMFP 1752/2005 continued by OMFP 3055/2009).

[26] Barlev *et al*. (2007) consider that, in countries that face high level of inflation, revaluation may be driven by constantly 'catch-up' to current price levels. Missonier-Piera (2007) found in the literature explanations for revaluation: avoiding violation of debt covenants, dissuade hostile takeover bids, reduce political costs, opportunity for earnings management or, simply, to report the fair value of the firm's assets.

[27] Cioară (2010) found that 57% of companies listed on BSE use the cost model, 14% the revaluation model, and 20% combine both models for the 2008 financial year. Despite the different way of analyzing data, there is a significant evolution between 2007 and 2008.

[28] The main argument we make this distinction is the tax regime of buildings. In their study about the use of fair value, Rodriguez-Perez *et al*. (2011) identified this item of PPE – buildings – with two others items (investments in subsidiaries and associates and other investments) to asses the impact of the shift from cost to fair value.

[29] RAS doesn't allow revaluation of intangible assets.

[30] Missonier-Peira (2007) states that upward fixed-asset revaluation generates a certain number of direct costs: obtaining an estimate of the fair value, higher audit cost (in some cases), impact on decisions of some stakeholders.

[31] Barlev *et al*. (2007) believe that such an increase in equity may be desirable because it diminish the political costs, by reducing their reported return on assets.

[32] We may consider several variables. Barlev *et al*. (2007) list 9 variables (financial leverage, liquidity, financing, financing requirement, capital intensity, capital expenditures, book to market ratio, return of assets and size), and Cioară (2010) considers 5 indicators (leverage, size, capital intensity, capital expenditure and industry).

[33] The opportunism of listed companies' managers can be considered a constant, regardless the accounting standards applied. Cole *et al*. (2011) believe that optional accounting treatments that are used differently by companies can reduce the comparability of IFRS financial statements and can be.

[34] Cioară (2010) found that, neither size nor capital intensity or industry does not influence management decision to revaluate.

[35] The VAT regulation.