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An analysis of the convergence level of tangible assets (PPE) according to Romanian national accounting regulation and IFRS for SMEs

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Abstract: This paper aims a comparative analysis between IFRS for SMEs and Romanian national accounting regulations concerning measurement of formal convergence level of definitions, treatment and policies of Property, Plant and Equipment (PPE) and highlighting main national fiscal rules related. With the purpose to not contribute only to the measurement of PPE formal level of harmonization, we intend to analyze some PPE related accounting practices used by Romanian certified accountants. To this effect we addressed an on-line questionnaire to certified accountants including questions concerning their opinion to: fair value method used for revaluation, accelerated depreciation, the limit value for tangible assets and inventory objects. Finally, we assessed a medium level of formal convergence in the area of PPE, but there are significant impediments if the case of a possible implementation of IFRS for SMEs especially because of the fiscal rules which usually influence accounting practices and because professional accountants considerably agree PPE practices which are not common within IFRS for SMEs.

Keywords: tangible assets (PPE), accounting convergence/harmonization, fiscal rules, OMFP 3055/2009, International Financial Reporting Standard for Small and Medium sized Enterprises (IFRS for SMEs)

JEL codes: M41

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1. Introduction

In the last decade, various international organizations paid an increasingly attention to the role and importance of SMEs, considering SMEs as main source of creating and providing workforce, revenues to the budget and other economic reasons. International growths of companies, cross border trade and foreign merger/acquisition have created prerequisites for developing an international accounting standard particularly designed for SMEs. As a consequence, in 2009 International Accounting Standard Board (IASB) issued IFRS for SMEs. Since then, IASB permanently promoted the adoption of IFRS for SMEs, the standard being perceived as an alternative for financial reporting of SMEs in enhancing comparability of SMEs financial statements prepared in different jurisdictions.

At present, according to IFRS Foundation and IASB, there are sixty – three jurisdictions which voluntary or mandatory adopted IFRS for SMEs, most of them being located in South American, African and Asian mainland.

On the other side, in Europe divergent opinions were expressed with regard to the potential application of IFRS for SMEs (EC, 2010). European Union (EU) does not consider yet the adoption of IFRS for SMEs as an alternative to the SMEs financial reporting (IFRS, 2013) and based on the European Financial Reporting Advisory Group (EFRAG) compatibility analysis between IFRS for SMEs and the EU accounting directives, EFRAG assessed IFRS for SMEs as being incompatible with EU accounting directives (EFRAG, 2010).

Therefore, European Commission (EC) examined and rejected the option to adopt IFRS for SMEs at European Union level. The EC Impact Assessment concluded that introducing IFRS for SMEs would not appropriately serve the objectives of simplification and reduction of administrative burden of SMEs (EC, 2013).

Nevertheless, Member States of European Union are able to permit or require IFRS for SMEs as their accounting standard for all or some of their unlisted companies provided that the Directive is fully implemented and the standard is modified to comply with any accounting requirement of the Directive that departs from the IFRS for SMEs. Thus, IFRS for SMEs may be available only as a voluntary option for SMEs (EC, 2013).

Regarding the implementation of IFRS for SMEs in European mainland, recently some jurisdictions (Bosnia and Herzegovina, Macedonia, Switzerland and United Kingdom) decided to adopt IFRS for SMEs, but considering some modifications. Of the four countries, only UK is member of the European Union and to permit IFRS for SMEs adoption, as FRS 102 (being effective for periods beginning after 2015) was considered significant changes aimed at eliminating differences between the standard and European directives as European Commission states above. The modifications of IFRS for SMEs in UK were in the way *of (IFRS, 2014):*

1. Permission to revalue PPE and to revalue certain intangible assets;
2. Amortization over not more than five years for amortizable intangible assets;
3. Permission to capitalize borrowing costs on qualifying assets;
4. Permission to use the historical cost model for all biological assets;
5. Numerous other changes to permit accounting treatments that exist in IFRSs at the transition date that aligns with EU-adopted IFRSs.

Considering promotion of the international comparability of SMEs accounting information and the actual implementation level of IFRS for SMEs, especially by some European jurisdiction, we intend to explore the convergence level between IFRS for SMEs and Romanian national accounting regulation.

In the case of Romania, some studies in the area of measuring the level of convergence and comparisons of the accounting segments between IFRS for SMEs and national regulation have been undertaken by CECCAR (2010), Bonaci *et al.* in Strouhal *et al.* (2011), Albu *et al.* (2011), Girbina *et al.* (2012).

In our study we focused on measurement the convergence level of the definitions, treatment and policies of Property, Plant and Equipment (PPE) between Romanian accounting national regulations (OMFP 3005/2009) and IFRS for SMEs. Through this study, we endeavored to identify if national fiscal rules related to PPE could hinder PPE convergence level in the case of Romania, because within PPE segment of Romanian national accounting regulation there are accounting items (fair value method used for revaluation, accelerated depreciation, the limit value for tangible assets, the useful life of an asset and inventory objects) which are not provided under IFRS for SMEs and because, as previous studies revealed, in the case of Romania, accounting practices are mostly influenced by fiscal rules.

For the analysis be complete in the area of PPE, we tried to connect theoretical issues with evidence of the agreed practices used by certified accountants for fair value method used for revaluation, accelerated depreciation, the limit value for tangible assets, useful life of an asset and inventory objects, with the purpose to understand all the impediments which could interfere in the area of PPE if we consider a possible adoption of IFRS for SMEs. To this effect, a questionnaire was addressed to certified accountants considering their opinion to specific items of PPE with the purpose to identify accounting practices related. From our study, we concluded that usually professional accountants agree in a great extent accounting practices that are in line with national fiscal rules and the accounting-taxation de facto connection could hinder a possible adoption of IFRS for SMEs in the area of PPE.

The paper is organized as follows. First two sections review the relevant international literatures studies of measuring accounting harmonization and furthermore review previous studies measuring the accounting convergence level between national accounting regulation (OMFP 3055/2009) and IFRS for SMEs. The next section reflects the influence of taxation on measuring the accounting convergence by reviewing relevant literature. Section five describe the methodology used for measuring formal level of convergence in the area of PPE between national accounting regulation and IFRS for SMEs, while the sixth section present aspects of a questionnaire addressed to professional accountants, which intend to analyze practices related to PPE with the purpose to understand if accounting practices could be obstacles in the case of a possible adoption of IFRS for SMEs. Finally, result and conclusion are provided.

2. Review of methods used for measuring the accounting level of harmonization

One could consider that international harmonization accounting efforts started once with the foundation of the International Accounting Standards Committe (IASC) in 1973 as the first international standard setter and initiator of accounting harmonization. The main IASC's objective was to issue basic accounting standards, called International Accounting Standards (IAS), which would lead to a harmonization of accounting standards worldwide (Zeff, 2012: 810). In 2001, IASC became IASB (International Accountins Standards Boards) and purposed the objective to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles (IASB, 2014). Since 2005, many jurisdiction adopted or converged to IFRS (International Financial Reporting Standard), especially in Europe, where all EU listed companies were required to prepare their financial statements according to IFRS. Hence, the aim of international harmonization was to reduce accounting differences across world.

Consequently, for many researchers occurred the need of measuring the level of harmonization between national accounting standards and international financial reporting standards.

Van der Tas, (1988), Rahman *et al.*, (1996), Archer et *al*, (1996), Cañibano & Mora (2000), Garrido *et al.* (2002), Taplin (2003), Fontes *et al.* (2005), Ding *et al.* (2007), Qu & Zhang (2010) used different types of indicators or statistical methods with the purpose to measure and reflect the level of the accounting harmonization between accounting standards.

Barbu (2004: 27-28) undertook a thorough analysis of the evolution of research of the international literature concerning accounting harmonization and methodologies used for measuring accounting harmonization.

Measuring level of accounting harmonization according to previous literature, differentiated in two ways: measuring the theoretical, formal (de jure) harmonization, which usually refer to similarities and dissimilates between the content (rules and regulation) of accounting standards (IAS-IFRS) and measuring the material (de facto) harmonization, which refer to comparing if the same accounting practices or methods are used within many enterprises.

Cañibano & Mora (2000:11) classified two different methodologies for measuring the level of harmonization: indices and statistical models. Measuring the level of accounting harmonization of two accounting standards can be done using three different types of indicators, (Mustata *et al.* 2011: 672-674)

1. Measurement instruments based on measuring options' concentration: using Herfindahl Index (H Index) for national harmony, I Index for international harmony and a Comparability Index (C Index) developed by Van der Tas in 1988;
2. Measurement instruments based on measuring the distance: Mahalanobis Distance Method developed by Rahman *et al.* starting with 1996 and the Euclidian Distances developed by Garrido *et al.* in 2002 and by Fontes *et al.* in 2005;
3. Measurement instruments based on measuring the similitude degree: association coefficients (Jaccard's Coefficients developed by Fontes *et al.,* (2005) or correlation coefficients (Spearman Coefficient developed by Fontes *et al*., (2005). Another association coefficient could be Roger Tanimoto Coefficient and Lance Williams Coefficient.

Fontes *et al.* (2005) were the first to use Euclidian distances, Jaccard's coefficients and Spearman's coefficients to measure formal harmonization between a country National Accounting Standard (Portugal in their study) and International Financial Accounting Standards (IFRS). They argued that Jaccard's coefficients supplemented by Spearman's coefficients are more adequate for measuring harmonization than using Euclidian distance method (Fontes *et al*., 2005: 417).

Linear regression models, developed by Archer *et al.* (1996) and standard error, developed by Taplin (2003) are considered two representative statistical models used for measuring harmonization level.

Cañibano & Mora (2000:10), consider annual reports, accounting regulations, public databases, questionnaires and laboratory techniques as data instruments or sources of data which can be used in studies for measuring de facto harmonization.

Another method for comparing two accounting standards (Chinese Accounting Standard and IFRS) was developed by Qu & Zhang (2010) using fuzzy clustering analyses. According to their methodology for assessing the level of harmonization and make comparison possible, they delimited standards into 6 major segments and calculated matching coefficient according to: complete convergence, substantial convergence, substantial difference and complete difference.

Mustata & Matis (2007) intended to create an indicator called Globalization Impact on National General Accepted Accounting Principles (GINGAAP Index) to be used for measuring pre-formal harmonization (need for harmonization). They also argue that information or some system of measurement the level of harmonization would be benefic for states which intend to apply IFRS or IFRS for SMEs for unlisted companies.

3. Review of measuring accounting level of harmonization between Romanian national accounting regulation (OMFP 3055/2009) and IFRS for SMEs

Currently, in Romania, there is not a specific accounting regulation especially designed and addressed to the SMEs. All Romanian entities, no matter the size have to prepare financial statements according to the Order no. 3055/2009 (issued by the Ministry of Public Finance) which follow European accounting directives. Entities which at the end of the financial year do not exceed the following criteria size: total assets (3.65 million Euro), turnover (7.3 million Euro) and the average number of employees (50), have to prepare abridged financial statements (balance sheet, income statements and notes to financial statements). The other entities which exceed criteria size are required to prepare the full set of the five financial statements including also: statements of changes in equity and cash flow statement.

The adoption of IFRS for SMEs in Romania, the pros and cons on its possible implementation, the need for adoption by micro enterprises and analysis of the level of convergence of IFRS for SMEs with the national accounting regulations (OMFP 3055/2009) in Romania have been subjects of several studies in our country undertaken mainly by Deaconu *et al*. (2009), Maşca *et al.* (2009), Albu *et al.* (2010), CECCAR (2010), Girbina *et al.* (2012), Bunea *et al.* (2012).

In Romania, overall, it is considered a medium level of theoretical convergence between IFRS for SMEs and OMFP 3055/2009 (Girbina *et al.,* 2012: 881). Also consider the grouping categories: conceptual requirements, the requirements for recognition and measurement, presentation and disclosure, it was concluded that convergence is higher in terms of presentation and reporting requirements than the requirements for recognition and measuring (Girbina *et al.*, 2012: 882).

Regarding the comparison of the sections of national accounting legislation with IFRS for SMEs there were several studies in the field. One to be mention is of Strouhal *et al.* (2011) where they used Jaccard's coefficients (for measurement of similarities and dissimilarities), Roger-Tanimoto coefficient (for measurement of similarities) and Lance-Williams coefficient (for measurement of dissimilarities) to compare the convergence level between the Romanian accounting regulation and IFRS for SMEs. They calculate Jaccard's Coefficients for the major areas such as:

intangible assets, property plant and equipment (PPE), investment properties, financial leases, inventories, financial assets and liabilities, financial derivatives and financial statements. From their research, in the area of PPE, they concluded the degree of dissimilitude (0.67) exceeds the similarity degree (0.33) referring only to initial recognition and revaluation of PPE (Bonaci *et al*, in Strouhal *et al.*, 2011: 321, 326). According to their study, Romanian accounting legislation is less harmonized with IFRS for SMEs (overall similarity degree: 0.53), compared to other Central and Eastern Europe analysed in their study, with main differences observed in the area of tangible assets (Bonaci *et al.,* in Strouhal *et al*., 2011: 321).

Albu *et al.* (2011) undertake an in-depth analysis of the level of convergence between the national regulation and IFRS for SMEs for inventories using two methodologies (of Ding *et al.,* 2007 and Qu & Zhang, 2010), identified 20 items related to inventories and calculated the convergence index and divergence index. They concluded that accounting for inventories according to national legislation is not as close to IFRS for SMEs as other previous general studies indicated (Albu *et al.,* 2011).

4. The influence of taxation on measuring accounting convergence

European Commission (EC, 2010:2) consider that in certain Member States the linkage between taxation and capital maintenance rules could make application of IFRS for SMEs more burdensome for some companies by duplicating reporting requirements. Furthermore, using IFRS for SMEs for consolidated accounts was seen as a possible compromise in those jurisdictions where the linkage between accounting, taxation and capital maintenance rules would make application of the standard problematic in company annual accounts.

In Romania, one of the main obstacles in the implementation of the IFRS for SMEs is considered the context of the connection between accounting and taxation, the state being perceived as the main user of financial statements and not ultimately because it was observed that in Romania, accountants are oriented rules and tax issues (Albu *et al.*, 2010: 662). Cuzdriorean *et al.* (2012: 898) also consider that tax accounting link has an important role in the way of a possible implementation of the IFRS for SMEs in Romania.

Moreover, comparing the Romanian accounting regulation and IFRS for SMEs, Albu *et al.*, (2010) concluded that even though de jure convergence may be assured, de facto convergence is not obvious. And even if IFRS for SMEs is imposed, entities will in fact continue to use fiscal rules (Albu *et al.*, 2010: 662). Also, there is a concern that IFRS for SMEs is not as detailed as national regulations, which may lead accountants to use previous regulations or fiscal regulations (Albu & Albu, 2014: 8).

Based on previous studies, Istrate (2011:16) concluded a certain de jure disconnection between accounting and taxation against to a certain de facto connection and ascertain that de jure disconnection do not correspond to the accounting practices, especially in the case of SMEs, arguing that is easier and convenient for an enterprise to avoid two series of different calculations (Istrate, 2011: 17).

Fekete *et al*. (2010:34) citing Berinde and Răchişan (2005) consider that entities and particularly SMEs are strongly interested in tax optimization, which lead to a significant influence of taxation over accounting, but they criticize there is no prior empirical research that could have confirmed this impact. Further, their research confirms de facto influence of taxation on accounting/accountants, as suggested in the literature (Fekete *et al.* 2010:45).

Cuzdriorean *et al.* (2010) confirm the existence of fiscal influence over accounting in the case of Romanian listed companies, but they consider taxation has not such a considerable influence on accounting (Cuzdriorean et. al, 2010:105).

Later, Fekete *et al.* (2012: 2318) collecting data from Romanian SMEs sector, found that accounting is indeed influenced by taxation (de facto influence) and according to their results, accounting at the SMEs level provides more „fiscal" than „financial" information, since SME accounting seems to be strongly influenced by taxation (Fekete *et al.*, 2012: 2319). Instead, Cuzdriorean (2012) conducted a survey addressed to licensed accountants experts regarding accounting practices and concluded that in the case of SMEs accounting, there is a close relationship between accounting and taxation practices (Cuzdriorean, 2012: 1138).

In the study undertaken by Pop *et al.* (2013: 90) with the purpose to understand if taxation influences accounting on behavioral level, they addressed a questionnaire to both accountants and fiscal inspectors and found evidence that individuals choices in practice are usually fiscal-driven and not accounting driven.

Istrate (2012: 244) analyzed the relationship between accounting and taxation in the area of tangible assets and found that Romanian accounting regulation include many detailed rules common with International Accounting Standard (IAS) 16 such as: the initial recognition and measurement, the revaluation, the depreciation of fixed assets, while the Romanian tax law doesn't follow the same way as the accounting rules, which explains most of the time accountants preference for fiscal rules and thus avoiding the premises of two distinct evidences which is not precisely on accountants' liking (Istrate, 2012: 258).

Interviewing SMEs users, owners, accountants, regulators, academics, and auditors Albu & Albu, (2014: 9) confirms the perception that in Romania a traditional link between accounting and taxation exists and that the tax authority is the main user of accounting information.

We can observe an increasing literature and recent studies concernig the accounting taxation connection in the case of Romania, and acording to previous researches we observe there is undeniable the influence of taxation on accounting practices.

5. Assessing the formal level of convergence for PPE in the case of Romania

According to the methodology developed by Qu & Zhang (2010) for measuring the convergence degree between two accounting standards and also according to Albu *et al.* (2011) analysis of the level of convergence between the national regulation and IFRS for SMEs used for inventories, we intended to identify the most important items related to Property, Plant and Equipment and to asses the level of formal convergence between the Romanian Accounting Regulation (OMFP 3055/2009) and IFRS for SMEs regarding the policies and accounting treatment (without referring to issues of presentation and disclosure) of Property, Plant and Equipment (PPE) and also to identify the most significant fiscal rules related.

So considering the structure and major items of both IFRS for SMEs and OMFP 3055/2009, the most important issues one practitioner accountant could identify in his/her daily work related to PPE and also considering general previous clustering made by Qu & Zhang (2010) and Albu *et al.* (2011), we identified five main common PPE sections such as: definition and recognition, scope and components of PPE, measurement criteria, depreciation and depreciation methods, evaluation and impairment. Further, we identified a total of twenty-eight sub items related to all five identified section.

List no.1 **Identified items and sub items of Property, Plant and Equipment (PPE):**

1. Definition and recognition
    1.1. Definition of PPE;
    1.2. Recognition of PPE;
    1.3. Derecognition of PPE;
2. Scope and components
    2.1. Land and Buildings, Plant and Machinery, Other Fixtures and Fittings, Tools and Equipment;
    2.2. Advance Payments to Suppliers of Tangible Fixed Assets and Tangible Assets in Progress;
    2.3. Biological assets and agricultural produce;
    2.4. Investment properties;

3. Measurement criteria
   - 3.1. General principle of cost elements and measurement of cost, except borrowing cost;
   - 3.2. Borrowing cost;
   - 3.3. Expenses included in PPE;
   - 3.4. Cost of purchase;
   - 3.5. Cost of production;
   - 3.6. Measurement of cost if payment is deferred beyond normal credit terms;
   - 3.7. Capitalization of subsequent expenditure (repairs and upgrades);
   - 3.8. Costs of non-monetary transactions;
4. Depreciation and depreciation methods
   - 4.1. Useful life;
   - 4.2. Residual value;
   - 4.3. The depreciable amount;
   - 4.4. The straight-line method;
   - 4.5. The diminishing balance method;
   - 4.6. The accelerated method;
   - 4.7. The units of production method;
5. Evaluation and impairment
   - 5.1. Cost method
   - 5.2. Fair value method
   - 5.3. Recognition of impairment
   - 5.4. Indicators of impairment
   - 5.5. Recoverable amount and Value in use
   - 5.6. Recognition and measuring an impairment loss for a cash generating unit

According to the methodology used by Qu & Zhang (2010), we assign scores for measuring the level of convergence between the items of the both standards such as: 1 for complete convergence and 0 for complete difference, with the purpose to determine the matching coefficient for PPE.

Table 1. Score assigning methodology

Score	Result	Explanation
1.0	Complete convergence	No difference between the items of the both standards
0.7	Substantial convergence	Substantial convergence between both standards with the same result
0.3	Substantial difference	Substantial divergence between both standards with different result
0.0	Complete difference	Conflicting provisions of the items

Table 2. Assigning score and assessing convergence level of PPE

Subitem	Convergence level	Score
1.1. Definition of PPE	1.1. Complete convergence	1
1.2. Recognition of PPE	1.2. Substantial difference	0.3
1.3. Derecognition of PPE	1.3. Complete convergence	1
2.1. Land and Buildings, Plant and Machinery, Other Fixtures and Fittings, Tools and Equipment	2.1. Complete convergence	1
2.2. Advance Payments to Suppliers of Tangible Fixed Assets and Tangible Assets in Progress	2.2. Substantial convergence	0.7
2.3. Biological assets and agricultural produce	2.3. Complete difference	0
2.4. Investment properties	2.4. Complete difference	0
3.1. General principle of cost, elements and measurement of cost (except borrowing cost)	3.1. Substantial convergence	0.7
3.2. Borrowing cost	3.2. Complete difference	0
3.3. Expenses included in PPE	3.3. Complete convergence	1
3.4. Cost of purchase	3.4. Substantial difference	0.3
3.5. Cost of production	3.5. Substantial difference	0.3
3.6. Measurement of cost if payment is deferred beyond normal credit terms	3.6. Substantial difference	0.3
3.7. Capitalization of subsequent expenditure (repairs and upgrades)	3.7. Complete convergence	1
3.8. Costs of non-monetary transactions	3.8. Substantial convergence	0.7
4.1. Useful life	4.1. Complete convergence	1
4.2. Residual value	4.2. Complete difference	0
4.3. The depreciable amount	4.3. Substantial difference	0.3
4.4. The straight-line method	4.4. Complete convergence	1
4.5. The diminishing balance method	4.5. Substantial convergence	0.7
4.6. The accelerated method	4.6. Complete difference	0
4.7. The units of production method	4.7. Complete convergence	1

Subitem	Convergence level	Score
5.1. Cost method	5.1. Complete convergence	1
5.2. Fair value method (Revaluation method)	5.2. Complete difference	0
5.3. Recognition of impairment	5.3. Complete convergence	1
5.4. Indicators of impairment	5.4. Complete convergence	1
5.5. Recoverable amount and Value in use	5.5. Complete difference	0
5.6. Recognition and measuring an impairment loss for a cash generating unit	5.6. Complete difference	0

Definition and recognition. Considering IFRS for SMEs was elaborated by IASB and the basis of the standard were international accounting standards and international conceptual accounting framework, recognition and measurement of the items derived from this framework. Also, definition of assets is in accordance with the accounting conceptual framework.

Similarly, OMFP 3055/2009 took elements of financial statements definition and recognition criteria of assets and liabilities from the IASB conceptual accounting framework. Presentation of assets as tangible or current depends on the purpose for which they are intended to be used according to the accounting policies approved by managers. Tangible assets, according to OMFP 3055/2209 and to IFRS for SMES, are recognized as assets and included in the financial statements of a company (i.e. balance sheet), if they meet the definition of assets and fulfill the following conditions cumulatively: is expected to generate economic benefits in the future and the cost of the asset is reliable.

In our country, an extra requirement in recognition of a tangible asset come along with fiscal rules because a condition in definition of tangible assets is that each element must have the value greater than 2,500 lei, according to Government Decision no. 276/2013, (applied starting with 1st July 2013). The tangible assets which do not exceed the criterion value fall in the category of inventory object, a category which doesn't have any counterpart in the international standard, and that it is why we consider substantial difference between the both standards.

Scope and components. According to OMFP 3055/2009 there are the following classes of tangible assets: Land and Buildings, Plant and Machinery, Other Fixtures and Fittings, Tools and Equipment and Advance Payments to Suppliers of Tangible Fixed Assets and Tangible Assets in Progress. OMFP 3055/2009 does not specify any accounting treatment and policies for biological assets and agricultural produce and for investment properties.

According to IFRS for SMES there are the following line items that should be presented in the Statement of Financial Position: property, plant and equipment, investment property carried at fair value through profit or loss, biological assets carried at cost less accumulated depreciation and impairment and biological assets carried at fair value through profit or loss.

According to IFRS for SMEs the class of tangible assets does not include "Biological assets and agricultural produce" and "Investment properties" which are measured at fair value. As it could be observed, biological assets and investment properties are represented through special sections (*Section no. 34 and Section no. 16*) according to IFRS for SMEs. For those sections are provided different definitions, methods of recognition, measurement and presentation.

Measurement criteria. Components of cost which are specified in IFRS for SMEs (*Section 17.10*) are found also in OMFP 3055/2009: purchase price, legal and brokerage fees, import duties and non-refundable purchase taxes after deducting trade discounts and rebates, the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, except the borrowing costs interest (expenses and fees on borrowed capital). In Romanian accounting regulation borrowing costs that are directly attributable of purchase, building or productions of the tangible asset may (as alternative treatment) be included in the cost of the asset. IFRS for SMEs clearly states that borrowing costs are expenses an entity shall recognize when are incurred (*Section 11.11*). IFRS for SMEs does not provide any explicit items for the production cost, input value and value of the goods obtained free of charge or found plus the inventory. Regarding capitalization of subsequent expenditure, IFRS for SMEs permit only if provide incremental future benefits to the entity, in this case being consistent with OMFP 3055/2009.

Depreciation and depreciation methods. In Romanian accounting regulation the concept of residual value does not exist, but according to IFRS for SMEs, residual value is subtracted from the cost, when determining the depreciable amount.

IFRS for SMEs does not set any limits regarding the useful life of a PPE. It only specifies that the useful life should be in accordance with the period over which the entity expects to use the asset or with contractual or other legal rights.

Romanian fiscal legislation by Government Decision no. 2139/2004 regarding the existence of the Catalogue sets the classification code and the limits of the intervals for the tangible assets useful life (existence of the minimum and maximum limits for tangible assets useful life) and their classification into groups, subgroups, category and subcategory.

Regarding the methods of depreciation, IFRS for SMEs exemplifies only three methods (without accelerated method). Also, the diminishing balance method is no exemplified, but one could conclude that is according to IAS 16 and in this case is not the same with the diminishing balance method that OMFP 3055/2009 refers to.

According to Romanian legislation, diminishing balance method and accelerated method are regulated by the Resolution no. 909/1997 approving the Methodological Norms for applying Law no. 15/1994 regarding the depreciation of fixed tangible and intangible assets amended by Government Ordinance no. 54/1997 and Fiscal Code and are exemplified in the Methodological Norms of the Fiscal Code. Fiscal Code allows the use of accelerated method only for technological equipment, respectively machines, tools and plants, as well as computers and their peripheral equipment, for building is available only the straight line method and for the rest of the PPE there is the possibility to chose between straight line method and diminishing balance method (*Law 571/2003 in conjunction with the HG 44/2004 regarding the Fiscal Code and Implementing Rules*).

Evaluation and impairment. Regarding the section of evaluation and impairment there are major differences between the two sets of standards. IFRS for SMEs allows only the cost method while OMFP 3055/2009 allows also the fair value method (same as IAS 16). Regarding the impairment, the situation is inverse, because IFRS for SMEs took the generally principle of impairment from IAS 36, requiring the calculation of recoverable amount when there are indicators of the impairment. OMFP 3055/2009 does not define concepts like recoverable amount or value in use, but Romanian accounting regulation recognizes the same indicators of impairment and at the end of the year at the inventory moment, when are evidence that tangible assets are depreciated, allows the registration of the valuation adjustments for the difference between the carrying amount and the inventory value on tangibles (which must be annulled in correspondence with income if the tangible assets is derecognized).

Concluding, for measuring the convergence level of tangible assets (Property, Plant and Equipment) according to Romanian Accounting Standard and IFRS for SMES we adapted to the methodology used by Qu & Zhang (2010) and we calculated the overall PPE convergence level as a weighted mean of the value of the score assigned and of the number of sub items.

Table 3. Values of the sections by assigning score

No	Section	1	0.7	0.3	0	Sub items Total	Value
1	Definition and recognition	2	0	1	0	3	0.7666
2	Scope and components	1	1	0	2	4	0.4250
3	Measurement criteria	2	2	3	1	8	0.5375
4	Depreciation and depreciation methods	3	1	1	2	7	0.5714
5	Evaluation and impairment	3	0	0	3	6	0.5
	Sub items Total	11	4	5	8	28	-

Overall convergence level of PPE = (11x1+4x0.7+5x0.3+8x0)/28=0.546

Based on computing matching coefficient we assessed a medium convergence level of PPE between national regulation and IFRS for SMEs in the case of Romania.

Further, using the results of a questionnaire addressed to professional accountants we aim to determine if there are impediments in the case of IFRS for SMEs implementation and what influence will have the main fiscal rules and accounting practices related to PPE, even though from our calculation we assigned a medium level of convergence for PPE.

6. Questionnaire addressed to professional accountants regarding PPE accounting practices

With the purpose to not contribute only to the measurement of PPE formal level of harmonization, we wanted to analyze some PPE accounting practices used by Romanian certified accountants. Thus, our study comprises also a descriptive analysis of a questionnaire addressed to certified accountants regarding their opinion to specific items of our national accounting regulation such as: fair value method, accelerated depreciation, the limit value for tangible assets and inventory objects, issues which are not included in the content of IFRS for SMEs and represents main differences between our national accounting legislation (OMFP 3055/2009) and IFRS for SMEs, in order to assess the main obstacles in the case of a possible implementation of IFRS for SMEs for the PPE segment.

The questionnaire included 17 closed-ended questions in the form of *multiple choices* answer, single question answers, yes/no answer and rating scale questions.

The target group to whom it was addressed the questionnaire was represented by the certified accountants, members of The Body of Experts and Licensed Accountants of Romania (CECCAR).

From the beginning, the questionnaire was distributed by email to the acquaintances who are members of The Body of Experts and Licensed Accountants of Romania (CECCAR). The questionnaire was also shared to some CECCAR affiliated Groups. Data collection was conducted during February 2014 - March 2014 and during this time were collected 37 responses. For a total population of over 15,500 CECCAR members (only individuals), a confidence interval of 95% and a sample size of 37 respondents, the sample error is ±16.1%.

A second phase of distribution of an improved version of the questionnaire to the CECCAR members (individuals and accounting firms, this time) was unfolded during July - August 2014 to an approximate number of 40,000 CECCAR members with the purpose to enlarge the sample size of the first phase distribution. In this phase were collected 90 responses. For a total population of around 40,000 CECCAR members (individuals and firms), a confidence interval of 95% and a sample size of 90 respondents, the sample error is ±10.3%.

The questionnaire aims to collect data from respondents and to assess their responses for determining frequencies of responses and percentages of the professional accountants opinion regarding practices related to fair value method, accelerated depreciation, the limit value for tangible assets and inventory objects.

The questionnaire was structured into three main segments comprising questions regarding the profile of the certified accountant (sex, age, location, experience, working place), general questions about the knowledge of IFRS for SMEs and its application, assessing the satisfaction level of the national accounting regulations (OMFP 3055/2009). The third part includes questions about fair value method, accelerated depreciation of fixed assets, the limit value for tangible assets and inventory objects.

7. **Result analysis of the questionnaire**

In the phase I distribution of the questionnaire, from our total respondents of 37 certified accountants, 13 were male and 24 female. The average age of the respondents was 37.3 years. 38.1% of the respondents work within an accounting firm, accounting expertise and other specific activities while 35.7% of the respondents work within the financial department of a company. In the phase II of distribution, the average age of respondents was 48.4 years, with 45.7% working within an accounting firm or financial department of a company, while 45.7% working as certified self employed and the rest of 8.6% working in related field of activity.

Table 4. Experience of the respondents

Phase I of distribution	**Number of respondents**	**Percentages**
a. Less than 5 years	23	62.2%
b. Between 6 and 15 years	9	24.3%
c. Over 15 years	5	13.5%
Total respondents	37	100
Phase II of distribution	**Number of respondents**	**Percentages**
a. Less than 5 years	15	16.7%
b. Between 6 and 15 years	23	25.7%
c. Over 15 years	52	57.8%
Total respondents	90	100

In the phase I questionnaire distribution, when asked about the extent professional accountants agree with the voluntary or mandatory implementation of an international accounting standard for SMEs, 59.5% of the respondents answered they agree the implementation of a voluntary or mandatory international accounting standard for SMEs, despite the fact that 75.7% considered satisfied with the national accounting regulations of OMFP 3055/2009. We believe the relative large percentages agreeing the implementation of IFRS for SMEs could be related to the experience of the respondents, because 62.2% of the respondents have professional experience of less than 5 years. However, in the second phase of distribution, 45.5% consider IFRS for SMEs as an alternative to Romanian national financial reporting, despite the fact that 68.9% of the respondents considered satisfied with national accounting regulations of OMFP 3055/2009. In the second phase of distribution, 57.8% of the respondents have professional experience of more than 15 years and one could consider experience a reason why percentage agreeing IFRS for SMEs diminish in the second phase from 59.5% to 45.5%.

Table 5. The extent to which certified accountant use accelerated depreciation method

Information (Phase I of distribution)	Number of respondents	Percentages
1. Always when it is permitted	4	10.8%
2. Even if accelerated depreciation method is permitted I do not always choose to use it	15	40.5%
3. Even if accelerated depreciation method is permitted I never choose to use it	6	16.2%
4. I have never been in a position to choose this type of depreciation, but if I were, I would used it	7	18.9%
5. I have never been in a position to choose this type of depreciation, but if I were, I would never used it	5	13.5%
Total answers	37	100

From the above table, we can observe that certified accountants usually use or agree to use accelerated depreciation, when it is permitted. From all the respondents, only 29.7% of the respondents do not use or are not agreeing to use accelerated depreciation at all.

More than 70% (Phase I of distribution) of the certified accountant said their enterprises use fair value method for revaluation of their fixed assets and the main reason they revalue is because of fiscal reason (79.4% of the respondents). In Romania, entities are not obliged to revalue buildings and revaluation represents an alternative method to the cost model, but note that in Romania revaluation of the buildings is asked once at every three years for tax purposes.

Regarding the certified accountant's opinion about the existence of inventory objects group, they were asked to assign score from 1 to 7, where 1 was Strongly disagree and 7 was Strongly agree. From our results, certified accountants consider this group should not be eliminated from Romanian accounting. Among the 37 respondents (Phase I of distribution), the average responses was 4.86.

Also, concerning the 2,500 Ron as the limit value threshold for including an asset into the category of tangible assets, the average responses was 4.59 (in the scale from 1 to 7, where 1 was Strongly disagree and 7 was Strongly agree), which reflect that certified accountant are likely agree this limit, rather than disagree (Phase I of distribution).

In the phase II of distribution, we asked professional accountants to assess the extent they agree the following practices: fair value method of revaluation, permission to use accelerated depreciation, inventory objects as a distinct group not included into fixed assets, classify an asset as fixed one according to limit value of 2,500 Ron, permission to capitalize borrowing cost of a PPE, using the existent Catalogue for determining the useful life of a PPE, on a five point Likert scale, by assigning score from 1 as Strongly disagree to 5 as Strongly agree.

Table 6. Assessing the extent professionals accountants agree PPE following practices using 5 point Likert scale

Information (Phase II)	Using fair value method of revaluation		Using accelerated depreciation		Existence of "Inventory objects"		Limit value of 2,500 Ron for a fixed asset		Capitalize borrowing cost		Using the Catalogue for determining the useful life	
	No	%	No	%	No	%	No	%	No	%	No	%
Strongly disagree (1)	10	11.1	6	6.7	8	8.9	9	10	4	4.4	5	5.6
Disagree (2)	4	4.4	0	0	9	10	10	11.1	6	6.7	5	5.6
Undecided (3)	3	3.3	12	13.3	10	11.1	7	7.8	27	30	5	5.6
Agree (4)	28	31.1	29	32.2	24	26.7	24	26.7	26	28.9	36	40
Strongly agree (5)	45	50	43	47.8	39	43.3	40	44.4	27	30	39	43.3
Total	90	100	90	100	90	100	90	100	90	100	90	100

From the second phase of questionnaire distribution, we observed similar results and we concluded the same as in first phase of distribution: professional accountants agree in a great extent the above analyzed practices related to PPE. We found that using fair value method of revaluation and accelerated depreciation are the most strongly agreed practices of the analyzed one.

Table 7. Descriptive statistics of PPE practices agreed

Statistic	Fair value method of revaluation	Using accelerated depreciation	Existence of "Inventory objects" group	Limit value of 2,500 Ron for a fixed asset	Capitalize borrowing cost	Using Catalogue for determining PPE useful life
No. of respondents	90	90	90	90	90	90
Median	4.50	4.00	4.00	4.00	4.00	4.00
Mean	4.04	4.14	3.85	3.84	3.73	4.10
Standard deviation	1.31	1.09	1.32	1.36	1.10	1.10

All the above analyzed practices will not be permitted within IFRS for SMEs if we consider a possible implementation of the actual version of IFRS for SMEs provided by IASB and also if not take into account fiscal rules. Given this and based on our results, it should be considered some modification, if a possible adoption took place, one of which being permission of revaluate PPE at least.

According to prior studies there is undeniable the influence of taxation on accounting practices. In the area of PPE, Pop *et al.* (2013: 84:85:86) concluded that although useful life of a tangible asset may be estimated according to accounting standards, in practice fiscal depreciation is preferred, choice for using accelerated depreciation method is often influenced by fiscal reason and accountants consider Fiscal Code requirement as the most important factor for revaluation at all entity sizes.

Even if we assessed a medium level of theoretical convergence, there are significant impediments for a possible implementation of IFRS for SMEs especially because of fiscal rules and extensively agreed practices used by the certified accountants (the limit value for classification of a tangible asset, the inventory objects group, accelerated depreciation method and fair value method of revaluation used mostly for tax purposes).

8. Conclusions and contribution of the paper

It has to be specificate that even if between the terms harmonization and convergence there was a slightly difference in meaning in the last years, nowadays they are mostly used with the same meaning, although convergence is most frequently used now (Zeff, 2007: 296, Choi & Meek, 2011:249).

The general opinion of The Body of Experts and Licensed Accountants (CECCAR) about the suitability of IFRS for SMEs concluded that implementation of IFRS for SMEs in our country would bring some benefits like: increased comparability and quality of financial reporting, increased financing opportunities, decreased cost of capital and the opportunities for the internationalization of SMEs and a possible separation between accounting and taxation, investment opportunities, the development of a more reliable environment for investors and increased opportunities for doing business with foreign entities. The principal practical problems in implementing IFRS for SMEs are considered to be the link to taxation and the importance of the tax authority (Response of Girbina M. (2012), in the name of CECCAR from Romania to IFRS, Comprehensive Review of the IFRS for SMEs).

Regarding PPE comparison of both OMFP 3055/2009 and IFRS for SMEs there are some major differences. Under IFRS for SMEs, you can not capitalize borrowing costs, is not permitted fair value method of tangible asset revaluation, there is not specified accelerated depreciation method, impairment method has to be done accordingly to IAS 36 (using concepts like recoverable amount and value in use), but completely different to Romanian national accounting standard. According to OMPF 3055/2009 revaluation method for PPE is permitted, borrowing cost can be capitalized, there is the possibility of using accelerated method of depreciation and the concept of recoverable amount does not exist.

From our calculation based on score assigning developed by Qu & Zhang (2010) we assigned a PPE convergence level of 0.546, which means a medium level of convergence between the two regulations. Our study intend a complex analysis of formal convergence level of PPE and accounting practices often used by professional accountants according to national accounting regulation, but not permitted (fair value method of revaluation, permission to use accelerated depreciation, inventory objects as a distinct group not included into fixed assets, classify an asset as fixed one according to limit value of 2,500 Ron, permission to capitalize borrowing cost of a PPE, using the existent Catalogue for determining the useful life of a PPE) by IFRS for SMEs.

Also, from our research, we can say that due to the medium level of convergence between the two regulations in the area of PPE, there are significant impediments if a possible implementation of IFRS for SMEs especially because of the fiscal rules which usually influence accounting practices and because professional accountants considerably agree national accounting practices which are not common in the case of IFRS for SMEs.

Without considering identified benefits and also drawbacks of a possible implementation of IFRS for SMEs in our country, one segment that will certainly be affected are the accounting professionals, because every legislative, fiscal and accounting changes propagate in their work. Of course, in our personal opinion and given our experience in the field is better to simplify the rules of IFRS for SMEs and bring them closer to the national accounting regulation if the case of a possible implementation, as UK did when decided to adopt FRS 102 (which is based on IFRS for SMEs with considered significant changes aimed at eliminating differences between the standard and European directives)

Even if certified accountant are not complete satisfied of the Romanian national accounting regulation, they rather prefer a simplification of the national accounting regulation than the adoption of a new SMEs standard.

Also, an ample study based on a questionnaire undertaken by Bunea *et al.* (2012) found that a more simplified reporting system is needed for the Romanian SMEs (Bunea *et al*., 2012: 39).
The study could be considered limited because it only refers to one single area such as PPE and the choosing of the sub items, comparing and score assigning could be influenced by the personal judgment and also because of the reduced sample size of the questionnaire.

An earlier version of the paper, entitled "Features referring to policies and accounting treatment of tangible assets (PPE) according to national accounting, fiscal rules and IFRS for SMEs – Empirical Study" was presented during the 9th edition of the International Conference on Accounting and Management Information Systems (AMIS 2014), which was held at the Bucharest University of Economic Studies, on June 11-12, 2014, being also grateful for the useful comments received during the conference.

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