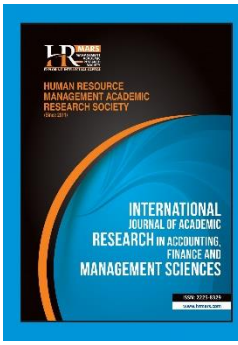

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To Link this Article: http://dx.doi.org/10.6007/IJARAFMS/v3-i2/10395 DOI:10.6007/IJARAFMS /v3-i2/10395

Received: *10* April *2013,* ***Revised:*** *11* May 2013*,* ***Accepted:*** *29* May 2013

Published Online: 16 June 2013

In-Text Citation: (Tenovici, 2013)

To Cite this Article: Tenovici, C. O. (2013). The Evaluation Subsequent to the Recognition of Tangible Fixed Assets in Public Institutions – Revaluation Method. *International Journal of Academic Research in Accounting Finance and Management Sciences*, *3*(2), 1–14.

Vol. 3, No. 2, 2013, Pg. 1- 14

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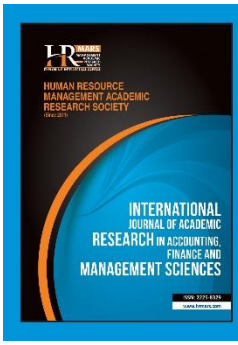
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The Evaluation Subsequent to the Recognition of Tangible Fixed Assets in Public Institutions – Revaluation Method

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Abstract
The option for an accounting policy is determined by the need to provide an accurate image of the financial position and performance in the institution. Thus, for the subsequent evaluation of tangible fixed assets, a public institution should choose the optimal accounting policy, that is either the cost-based pattern or the revaluation method, so that it can provide relevant, prudent and complete data in all significant aspects by means of its financial reports.
Keywords: Subsequent Evaluation, Tangible Fixed Assets, Intangible Assets, Depreciation, Temporary Impairment Adjustments, Revaluation Model

Introduction

The current informational requirements have imposed the use of a common financial reporting language. Evolution involves, as much as possible, the improvement and reduction of differences among national accounting practices and regulations, aiming at developing principles and rules of a general character likely to allow the comparability of data provided by the content of financial reports issued by the public sector, as well as at reducing the differences between the accounting regulations of different countries.

In this paper, the author intends to perform an analysis on the level of convergence and harmonization of national accounting rules with a view to the subsequent recognition – the model based on revaluation and accounting registration of operations on tangible fixed assets with the international accounting standard for the public sector IPSAS 17 „Intangible assets", by identifying the set of convergent and divergent elements.

The need for an accounting system commonly based on accounting standards determined in the year 1977 the foundation of the International Federation of Accountants (IFAC). The international Federation of Accountants is now the world organisation of the accounting profession for the public sector, whose main object is to serve the public interest, to strengthen the accounting profession on world level by initiating and promoting the adherence to high quality professional standards, the international development and convergence of these standards, as well as the debate on public interest issues where professional experience is extremely important. For achieving this goal, the IFAC Board

founded the International Public Sector Accounting Standards Board (IPASB) for setting high quality standards to be used by entities in the public sector all over the world for preparing financial reports of common use.

In Romania, the regulations for the public institutions accounting system are settled in accordance with the International Public Sector Accounting Standards IPSAS), issued by the International Public Sector Accounting Standards Board (IPASB). Thus, accounting organisation in public institutions is performed in compliance with the provisions of the Ministry of Public Finance Ordinance no.1917/2005 and of the Accounting Law no.82/1991 republished and subsequently amended. For presenting aspects of the revaluation of fixed assets this paper shall apply to the Ministry of Public Finance Ordinance no. 3.471/ 25.11.2008.

The terminology used in this paper is of „tangible fixed assets" in compliance with the national regulations in force, respectively of „intangible assets", in compliance with the international accounting standards for the public sector, the international accounting rule directly referring to intangible assets being the IPSAS 17 „Intangible assets".

The Evaluation Subsequent to the Recognition of Tangible Fixed assets/intangible Assets

Conceptual Dimensions

The evaluation subsequent to the recognition of tangible fixed assets/intangible assets can occur by using one of the two provided methods: the cost method and the revaluation method.

There is no complete convergence between the national accounting regulations and the International Public Sector Accounting Standards, as:

a. National regulations are concerned with only the basic accounting approach (the cost model). Thus, a tangible fixed asset must be subsequently evaluated (in the balance sheet) at its original cost less the cumulated cost adjustments. The cost adjustments include all adjustments meant to consider reductions of individual assets value, whether the reduction is permanent (depreciation) or temporary (impairment adjustments).

b. The international standard IPSAS 17 „Intangible assets" offers the possibility to choose between the basic accounting term (cost model) and the alternative accounting term (revaluation model).

Convergence and Divergence Issues on the Subsequent Recognition based on the Revaluation Method

After its recognition as an asset, a tangible fixed asset/intangible asset whose fair value can be credibly evaluated must be registered at its revaluated value, which is the fair value less any depreciation accumulated subsequently and any impairment losses accumulated subsequently. Revaluations must be done regularly enough so that the accounting value may not differ significantly from the value determined by using the fair value on the reporting date.

The fair value of intangible assets, in accordance with IPSAS 17 „Intangible assets" is commonly their market value determined by evaluation (is commonly performed by an assessor member with a recognised and relevant professional qualification). The fair value can be easily settled with the help of prices quoted on the active and liquid market, but for public institutions the market value becomes more difficult to settle because of lack of market transactions of these assets. The fair value is calculated as follows [IFAC, 2009, vol.I, p.519-520.]:

- When there are not available proofs for determining the market value, on an active and liquid market of a real estate element, the fair value of the element can be established in relation with other elements with similar characteristics, in similar locations and circumstances;
- For specialised buildings and other structures, the fair value can be estimated by using the approach based on the depreciated replacement cost (can be established in relation with the purchase cost of a similar asset with possible similar services on an active and liquid market) or with the restoration cost (is the cost of reconstruction of possible services of an asset on its value before impairment) or by approaching services units (in accordance with IPSAS 21 „Impairment of non-cash generating assets") . According to this approach, the updated value of possible services of the asset is determined by reducing the current cost of the possible services of the asset before impairment in order to comply with the reduced number of services units expected for the impairment asset;
- If there is not an evidence based on the fair value because of the special nature of the tangible asset, an entity shall use in estimating the fair value either the reproduction cost or the depreciation replacement cost (it can be established in relation with the purchase cost on the market of certain components used for producing the asset or with the indexed price of the same asset or of a similar one on the basis of a price belonging to a previous period) or services units approach.

After initial recognition, an intangible asset shall be carried at a revaluated amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value. The frequency of revaluations depends on the volatility of the fair values of the intangible assets being revaluated. If the fair value of a revaluated asset differs materially from its carrying amount, a further revaluation is necessary. Some intangible assets may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for intangible assets with only insignificant movements in fair value.

Romanian accounting regulations do not mention the frequency of evaluation, but the Ministry of Public Finance Ordinance no.3471/2008 states the fact that tangible fixed assets are being revaluated when the accounting value differ significantly from the fair value and the land and buildings shall be revaluated at least every three years starting with 2008. Fixed assets can undergo revaluation if they are displayed in the balance sheet at their revaluated value and not at their historical cost. Their revaluation occurs, except the provisions of legal regulations, at their fair value. The fair value is determined on the basis of certain evaluations performed by evaluators authorised or by technical commissions organised under the law. The following categories of tangible fixed assets are subject to revaluation [O.M.F.P. no.3.471 / 2008]:

- Tangible fixed assets in patrimony: land and land improvements, buildings, technical installations, vehicles, animals and plantations, furniture, office equipment, protective equipment and materials of human values and other tangible fixed assets;
- Tangible fixed assets in concession rent, for free use of non-profit legal entities, as well as of data management autonomous administrations;
- Capacities commissioned partially by the nature of the tangible fixed assets for which registration forms have not been completed as tangible fixed assets;

−Tangible fixed assets on which were performed investment works (upgrades, repairs, rehabilitation, consolidation etc.) which increased at book value thereof regardless of the source of investment financing;

−Tangible fixed assets acquired by public institutions under finance leases;

−Tangible fixed assets to be found at diplomatic, commercial, military representatives from abroad, in the conflict areas. They are inventoried and revaluated by the public institutions in whose patrimony they are registered.

The following categories of tangible fixed assets are not subject to revaluation [O.M.F.P. no.3.471 / 2008]:

−Tangible fixed assets which belonged to the patrimony of public institutions during the year over which the revaluation is carried out and they have been registered in accounting at their purchase cost, production cost or their fair value, as appropriate;

−Tangible fixed assets with the common time of operation expired on the date of revaluation;

−Tangible fixed assets under preservation, as well as intangible assets which are registered in accounting as tangible fixed assets;

−Tangible fixed assets for which documents were prepared but there have not been obtained the legal approvals for decommissioning, and which have not been demolished or dismantled;

−Tangible fixed assets in progress.

The accounting approach of revaluation differences, in accordance with Romanian accounting regulations is differently registered according to the type of tangible fixed assets being revaluated, as follows:

a. *the registered differences after revaluation for redeemable tangible fixed assets:*

1. If the revaluation result is an increase of the accounting value, the revaluation difference increases the revaluation reserve, at the same time with an increase of fixed asset value, unless there has been a former decrease recognised as expenditure of the asset or as an income recognised as a compensation of a certain expenditure with the previously recognised decrease for that asset.

2. If the revaluation result is a decrease of the accounting value, a revaluation reserve decrease is registered with the minus between the reserve value and the decrease value and the possible difference remained uncovered shall be registered as an expenditure or the whole value of the depreciation shall be registered as an expenditure, if the revaluation reserve did not include a former surplus from revaluation.

b. *revaluation differences registered for no redeemable tangible fixed assets:*

1. If the revaluation result is an increase of the accounting value, in accounting terms it shall be approached as an increase of the revaluation reserve, a difference which has to be transferred simultaneously into the credit funds accounts corresponding to the financing source of that no redeemable tangible fixed asset.

2. If the revaluation result is a decrease of the accounting value, in accounting terms it shall be approached as a decrease of the revaluation reserve, a difference which has to be transferred simultaneously into the debit funds accounts corresponding to the financing source of that no redeemable tangible fixed asset.

Any cumulated depreciation on the revaluation date must be approached in one of the following ways:

O.M.F.P. no.1917/2005	IPSAS 17 „Intangible assets”
Gross carrying amount: restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revaluated amount; or eliminated against the gross carrying amount of the asset and the net amount restated to the revaluated amount of the asset. This method is used when the asset is revaluated by applying an index to the depreciated replacement cost. Net carrying amount: any depreciation accumulated on the revaluation date is removed from the gross carrying amount of the asset and the net carrying amount reconsidered on the revaluated value of the fixed asset. For each evaluation the calculated depreciation is eliminated from the accounting value of the redeemable fixed assets. This method is mainly used for buildings which are being revaluated on their market value.	Gross carrying amount: restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revaluated amount; or eliminated against the gross carrying amount of the asset and the net amount restated to the revaluated amount of the asset. This method is used when the asset is revaluated by applying an index to the depreciated replacement cost. Net carrying amount: any depreciation accumulated on the revaluation date is removed from the gross carrying amount of the asset and the net carrying amount reconsidered on the revaluated value of the asset. This method is mainly used for buildings.

The adjustment value resulting from elimination of accumulated depreciation is included in increase or decrease of the accounting value and is approached as follows [IFAC, 2009, vol. I, p. 521]:

- If the accounting value of an assets class is increased following a revaluation, this increase must be directly registered in the revaluation surplus. Nevertheless, the increase must be recognised in the surplus or deficit to the extent that it takes over a reduction from the revaluation of the same class of assets previously recognised in the surplus or deficit;
- If the accounting value of an assets class is diminished after a revaluation, this reduction must be recognised in surplus and deficit. Nevertheless, the reduction must be directly decreased from the revaluation surplus according to any existing credit amount in the revaluation surplus in relation to that class of assets;
- The revaluation increases and decreases directly related to individual assets in a class of intangible assets must compensate within that class, but they must not compensate with assets from different classes.

Both national regulations and the international standards refer to revaluation differences recognised corresponding to tangible fixed assets/derecognised intangible assets, as follows:

a. In compliance with the Ministry of Public Finance Ordinance No 1917/2005 - differences from revaluation of fixed assets fully depreciated, decommissioned, transferred free of charge sold etc. shown in account 105 "Revaluation differences" are transferred to retained earnings 117.15 "Retained earnings representing revaluation surplus" So we considered the realization of surplus tat the end of asset operation time or disposal and not during its use by the entity;

b. In compliance with the IPSAS 17 „Intangible assets" - the cumulative revaluation surplus included in net assets/equity may be transferred directly to accumulated surpluses or deficits when the surplus is realized. The whole surplus may be realized on the retirement or disposal of the asset. However, some of the surplus may be realized as the asset is used by the entity; in such a case, the amount of the surplus realized is the difference between depreciation based on the revaluated carrying amount of the asset and depreciation that would have been recognized based on the asset's historical cost. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

Example: In a public institution at the end of the financial year N, the fair value of no redeemable tangible fixed assets (land in the private domain of the state) is 10 000 lei higher than the recording value of 40 000 lei. At the end of N+1, for the same fixed assets they see a depreciation of 12 000 lei, and at the end of N+2 they see an increase of 15 000 lei. The revaluation differences shall be recorded as follows:

a. recording the revaluation difference in year N. Here are the calculations performed:

Accounting value:	40.000 lei
Fair value:	50.000 lei
Present revaluation differences:	+ 10.000 lei

Here is the accounting record:

2111 „Land"	=	1051 „Land revaluation reserve"	10.000 lei

Simultaneously:

1051 „Land revaluation reserve"	=	102 " The Goods'funds which form the private domain of the state"	10.000 lei

b. Recording the revaluation difference in year N+1. Here are the calculations performed:

Accounting value:	50.000 lei
Fair value:	38.000 lei
Revaluation differences formed:	+ 10.000 lei
Actual revaluation differences:	– 12.000 lei
Depreciation adjusted expenditures:	2.000 lei

Here is the accounting record:

%	=	2111 „Land"	12.000 lei
1051 „Land revaluation reserve"			10.000 lei
6813 „Operating expenses related to current assets impairment"			2.000 lei

Simultaneously:

102 "The Goods' funds which form the private domain of the state"	=	1051 „Land revaluation reserve"	10.000 lei

c. Recording the revaluation difference in year N+2. Here are the calculations performed:

Accounting value:	38.000 lei
Fair value:	53.000 lei
Actual revaluation differences:	+ 15.000 lei
Depreciations (adjustment expenditures) recorded in previous years:	– 2.000 lei
Revaluation differences to form:	+ 13.000 lei

Here is the accounting record:

2111 „Land"	=	% 7813 „Operating expenses related to current assets impairment" 1051 „Land revaluation reserve"	15.000 lei 2.000 lei 13.000 lei

Simultaneously:

1051 „Land revaluation reserve"	=	102 „The Goods' funds which form the private domain of the state"	13.000 lei

On revaluation, for no redeemable tangible fixed assets the depreciation has to be recalculated for the new value:

A practical example for applying the gross carrying amount: a public institution in year N purchased a means of transport, in February, with an accounting value of 60.000 lei, the normal operation time being of 5 years. At the end of year N+1 a first revaluation is done, the price index being 1,5. In 2 years' time, in year N+3 another revaluation occurs, the price index being 0,75.

a. the means of transport purchased is registered (no VAT is mentioned or payment to the supplier):

2133 „Means of transport"	=	404 "Suppliers of fixed assets"	62.000 lei

b. the accounting record includes the depreciation calculated for the first year of use of the means of transport: The monthly depreciation calculated: $A_l = \frac{VI}{DU_l} = \frac{60.000}{60} = 1.000$ lei / month

Cumulated depreciation calculated in the year N: $A_{cumulata} = A_l \times nomonths = 1.000 \times 10 = 10.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2813 „Depreciation of vehicles”	10.000 lei

c. Recordings achieved in the year N+1:

Cumulated depreciation calculated in the year N+1: $A_{cumulata} = A_l \times nomonths = 1.000 \times 12 = 12.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2813 „Depreciation of vehicles”	12.000 lei

Calculations performed for determining the revaluation difference:

Table 1. Revaluation difference calculation – gross carrying amount year N+1

Explanations	Value before revaluation	Value after revaluation = value before revaluation x price index	Difference = Value after revaluation – value before revaluation
Gross carrying amount	60.000	60.000 x 1,5 = 90.000	+ 30.000
Cumulated depreciation	10.000 + 12.000 = 22.000	22.000 x 1,5 = 33.000	+ 11.000
Net carrying amount (gross carrying amount – depreciation)	38.000	57.000	+ 19.000

Here is the accounting record:

2133 „Means of transport”	=	%	30.000 lei
		1053 „Revaluation reserve for vehicles”	19.000 lei
		2813 „Depreciation of vehicles”	11.000 lei

The accounting recording of depreciation is calculated for the year N+2 according to the revaluated net carrying amount and the remaining operation time [60 months – (10 months year N+12 months year N+1)] as follows: $A_l = \frac{VI}{DU_l} = \frac{57.000}{38} = 1.500$ lei / month

d. the accounting recording includes the depreciation corresponding to the year N+2 of use of the vehicle (in the year N+2 no revaluation occurred). The cumulated depreciation calculated in the year N+2: $A_{cumulata} = A_l \times nomonths = 1.500 \times 12 = 18.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2813 „Depreciation of vehicles”		18.000 lei

e. recordings performed in the year N+3:

Cumulated depreciation calculated in the year N+3: $A_{cumulata} = A_l \times nomonths = 1.500 \times 12 = 18.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2813 „Depreciation of vehicles”		18.000 lei

Here are the calculations:

Table 2. Revaluation difference calculation – gross carrying amount year N+3

Explanations	Value before revaluation	Value after revaluation = value before revaluation x price index	Difference = Value after revaluation – value before revaluation
Gross carrying amount	90.000	90.000 x 0,75 = 67.500	– 22.500
Cumulated depreciation (N+1, N+2)	36.000	36.000 x 0,75 = 27.000	– 9.000
Net carrying amount (gross carrying amount – depreciation)	54.000	40.500	– 13.500

Here is the accounting record:

%	=	2133 „Means of transport”		22.500 lei
1053 „Revaluation reserve for vehicles”				13.500 lei
2813 „Depreciation of vehicles”				9.000 lei

f. in the year N+4, the accounting record shall include the depreciation, which shall be calculated according to the revaluated net carrying amount and the operation time remained [60 months – (10 months year „N”+ 12 months year „N+1” + 12 months year „N+2” + 12 months year „N+3”)], as follows: $A_l = \frac{VI}{DU_l} = \frac{40.500}{14} = 2.983$ lei / month

The cumulated depreciation calculated in the year N+1:

$A_{cumulata} = A_l \times monthsno = 1.500 \times 12 = 18.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2813 „Depreciation of vehicles”	18.000 lei

A practical example for applying the net carrying amount: A public institution keeps records in the financial year N of a building with a purchase value of 3.000.000 lei and an operation time of 25 years, for which a depreciation was calculated and registered for over 15 years (including year N), the final accounting value at the end of year N being of 1.200.000 lei. At the end of year N the fair value of 2.100.000 lei of the building is 900.000 lei higher than the net carrying amount of .200.000 lei. At the end of the year N+1, for the same building we can see a depreciation of 961.200 lei (fair value 928.800), and at the end of the year N+2 we can see an increase of 96.000 lei (fair value 921.600 lei). Revaluation differences shall be recorded as follows:

a. the accounting record includes the cumulated depreciation calculated until the end of the year N: $A_l = \frac{VI}{DU_l} = \frac{3.000.000}{300} = 1.000$ lei / month

the cumulated depreciation calculated until the year N (15 years, that is 180 months):

$A_{cumulata} = A_l \times monthno = 1.000 \times 180 = 1.800.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2812 „Depreciation of buildings”	1.800.000 lei

b. the cumulated depreciation calculated by the end of the financial year N is cancelled:

2812 „Depreciation of buildings”	=	212 „Buildings”	1.800.000 lei

c. recording the revaluation difference determined after the revaluation performed at the end of the year N includes the following calculations:

Initial accounting value:	3.000.000 lei
Cumulated depreciation:	1.800.000 lei
Net carrying amount:	1.200.000 lei
Fair value:	2.100.000 lei
Actual revaluation differences:	+ 900.000 lei

The accounting record will include:

212 „Buildings”	=	1052 „Revaluation reserve for buildings”	900.000 lei

Starting with the year N+1, the redeemable value consists in the fair value agreed on revaluation at the end of the year N, as follows: The remaining operation time is of 10 years (25 years – 15 years): $A_l = \frac{VI}{DU_l} = \frac{2.100.000}{120} = 17.500$ lei / month

Cumulated depreciation calculated by the end of the year N+1: $A_{cumulata} = A_l \times monthsno = 17.500 \times 12 = 210.000$ lei

6811 „Operating Expenses Depreciation on Fixed Assets”	=	2812 „Depreciation of buildings”	210.000 lei

d. the cumulated depreciation calculated by the end of the financial year N+1 is cancelled:

2812 „Depreciation of buildings”	=	212 „Buildings”	210.000 lei

e. recording the revaluation difference determined after the revaluation performed at the end of the year N+1 includes the following calculations:

Accounting value before revaluation:	2.100.000 lei
Cumulated depreciation:	210.000 lei
Net carrying amount:	1.890.000 lei
Fair value:	928.800 lei
Actual revaluation differences:	– 961.200 lei
Revaluation differences achieved:	+ 900.000 lei
Depreciation adjustment (expenditure):	– 61.200 lei

The accounting record will include:

%	=	212 „Buildings”		961.200 lei
1052 „Revaluation reserve for buildings”			900.000 lei	
6813 „Operating expenses related to current assets impairment”			61.200 lei	

Starting with the year N+2, the redeemable value consists in the fair value agreed on revaluation at the end of the year N+1, as follows: The remaining operation time is of 9 years (25 years – 16 years): $A_l = \frac{VI}{DU_l} = \frac{928.800}{108} = 8.600$ lei / month

The cumulated depreciation by the end of the year N+2:

$A_{cumulata} = A_l \times monthno = 8.600 \times 12 = 103.200$ lei

6811 „Operating expenses related to current assets impairment”	=	2812 „Depreciation of buildings”	103.200 lei

f. the cumulated depreciation calculated by the end of the financial year N+2 is cancelled:

2812 „Depreciation of buildings”	=	212 „Buildings”	103.200 lei

g. recording the revaluation difference determined after the revaluation performed at the end of the year N+2 includes the following calculations:

Accounting value before revaluation:	928.800 lei
Cumulated depreciation:	103.200 lei
Net carrying amount:	825.600 lei
Fair value:	921.600 lei
Actual revaluation differences:	+ 96.000 lei
Revaluation differences previously achieved:	– 61.200 lei
Revaluation difference to operate:	34.800 lei

The accounting record will include:

212 „Buildings”	=	%	96.000 lei
		7813 „Reversal of impairment losses on non-current assets”	61.200 lei
		1052 „Revaluation reserve for buildings”	34.800 lei

Starting with the year N+3, the redeemable value consists in the fair value agreed on revaluation at the end of the year N+2, as follows: The remaining operation time is of 8 years (25 years – 17 years): $A_I = \frac{VI}{DU_I} = \frac{921.600}{96} = 9.600$ lei / month.

Conclusions

In the analysis performed we have identified several convergence elements and divergence elements on the subsequent evaluation, by applying the alternative accounting approach, such as:

a. Divergent elements:

– In accordance with IPSAS 17 „Intangible assets”, revaluation must occur for the whole class to which the revaluated asset belongs. The Romanian accounting rules do not compel the revaluation of all elements in a class of the same type, the revaluation of the fixed asset occurring when the accounting value is significantly different from its fair value;

- For non-redeemable tangible fixed assets, IPSAS 17 „Intangible assets" provisions do not apply and both value increase and value decrease are transferred on tangible fixed assets funds;
- IPSAS 17 „Intangible assets" stipulates that the transfer of its accumulated surplus or deficit to be performed when surplus is performed, while national regulations have supported surplus adoption on the expiry of the asset operation time or on its disposal and during its use;

b. Convergence elements:

- Both national regulations and international standards mention that revaluation occurs for the fair value;
- There has been adopted the same accounting approach in revaluation for redeemable tangible fixed assets;
- The accounting approach for the cumulated depreciation on the revaluation date is simultaneously applied (the gross carrying amount or the net carrying amount).

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