

PARTICULAR FEATURES CONCERNING TANGIBLE FIXED ASSETS

Professor, 1st Degree, Claudia Andreea GROSARU
"Armand Călinescu" Technical College Pitești, Romania
E-mail: andreea.grosaru@yahoo.com
Lecturer Ph.D. Corina DUCU
"Constantin Brâncoveanu" University of Pitesti, Romania
E-mail: corina_ducu@yahoo.com

***Abstract:** Fixed assets refer to those assets that are intended to serve the activities of the entity for a long period of time, namely more than one year. Depending on their form of existence, fixed assets are divided into three categories: tangible fixed assets, intangible fixed assets and financial fixed assets. The approach to tangible fixed assets is based on the benefits generated as a result of their use, which contribute to the long-term sustainable development of the entity. As a result, the objective of this research is to present tangible fixed assets both from a theoretical point of view, through a general overview of the aspects related to the definition, forms of fixed assets, recognition and measurement, and from an accounting point of view, through the presentation of individual studies that particularize the approach taken to this balance sheet component.*

***Keywords:** entity, fixed assets, economic benefits, economic environment.*

***JEL Classification:** M41.*

1. Introduction

Stage of knowledge

Assets are considered to be tangible, intangible or financial economic assets that are held by an entity for more or less than one year and generate economic benefits through their use. They are divided into fixed assets and current assets.

Fixed assets are assets that are intended to serve the business of the entity for an extended period of time, namely more than one year. In contrast, current assets are assets that: are expected to be performed or held with the intention of being sold or consumed in the normal course of the entity's life in less than one year; are held primarily for the purpose of trading; they are expected to be realized within 12 months after the balance sheet date; and are represented by cash or cash equivalents.

According to the OMFP 1802/2014 accounting regulations, the three specific forms of fixed assets are presented as follows:

Tangible fixed assets are fixed material assets, tangible, held to be used in the production of goods or the rendering of services, to be rented to third parties or to be used for administrative purposes and are used for a period of more than one year;

Intangible fixed assets, are identifiable non-monetary assets, without physical form, held for use in the production or supply of goods or services, for rental to third parties or for administrative purposes and used for a period longer than one year;

Financial fixed assets, are amounts held in affiliated entities in the form of shares, loans granted to affiliated entities, shares held in associates and jointly controlled entities, loans granted to associates and jointly controlled entities, other investments held as fixed assets and other loans.

2. Delimitations and forms of tangible fixed assets

Tangible fixed assets are considered to be tangible assets, having a material form, participating in several production cycles, and consequently not consumed on first use.

The structure of tangible fixed assets includes the following categories of items:

1. Land and buildings;
2. Plant and machinery;
3. Other plant, machinery and furniture;
4. Real estate investments;
5. Tangible assets for the exploitation and evaluation of mineral resources;
6. Productive biological assets;
7. Advances and tangible assets in the course of construction.

Tangible assets are recognized by adopting the general asset recognition criteria, namely: generation of economic benefits and credible measurement.

In relation to the nature of the assets and the time of measurement, several forms of measurement of property, plant and equipment are presented, such as: measurement on entry, measurement on disposal, inventory valuation and balance sheet valuation.

Measurement on entry into the entity is at the cost of the asset, determined on the basis of how the asset entered the entity, namely the acquisition cost, production cost, contribution value, fair value.

The exit valuation is done at the entry book value.

Inventory valuation is done at the current value of the asset, also called inventory value.

The valuation on the balance sheet is done at the entry accounting value agreed with the results of the inventory.

II. Current accounting of tangible fixed assets

The accounting treatment of tangible fixed assets will be approached by looking at: the ways in which tangible fixed assets are brought into and out of an entity, revaluation issues and the depreciation regime, by presenting several individual case studies.

The entry of property, plant and equipment into an entity presents a number of accounting particularities, depending on the means of entry, such as: contribution in kind to share capital, acquisition, construction, leasing, addition to inventory, donation.

With regard to the capital contribution of a tangible fixed asset, we consider the subscribed share capital of a company of 500,000 lei, divided into 500,000 shares, with a nominal value of 1 leu/share.

The shareholders subscribed the issued shares as follows:

- 300,000 shares in cash;
- 200,000 shares in kind (150,000 shares representing a plot of land and 50,000 shares representing a means of transportation).

The following steps must be taken in the registration procedure:

1. Determining the value of the share capital:

500,000 shares x 1 leu/share = 500,000 lei

2. Subscription of the contribution to the share capital:

456	1011	5
"Capital settlements with shareholders/associations"	"Unpaid capital"	subscribed 00,000

3. Deposit of the contribution to the capital:			
%	456		500,000
5121	"Capital settlements		
"Bank accounts in lei"	with	300,000	
2111	shareholders/associations"	(300,000	
"Lands"		shares x 11eu/share)	
2133			
"Transport equipment"		150,000	
		(150,000	
		shares x 11eu/share)	
		50,000	
		(50,000 shares	
		x 11eu/share)	
4. Transfer of capital from subscribed unpaid share capital to subscribed paid-up share capital:			
1011	1012		5
"Unpaid subscribed capital"	"Paid-in capital"	subscribed	00,000

With regard to the acquisition of tangible fixed assets, we start from the following consideration:

An entity purchases a working plant at a purchase price of 4,000 lei, transportation costs 200, VAT 19%. It should be noted that the installation does not require commissioning assembly. This operation entails the following entries in the entity's accounting as follows:

1. Determining the value of the fixed asset:

The value of the fixed asset consists of: purchase price + transportation costs + VAT

Value of fixed asset = 4.000 + 200 + (4.200 x 19%) = 4.000 + 200 + 798 = 4.998 lei

2. Registration of the acquisition of the fixed asset:

%	404		4
2131	"Suppliers of fixed assets"	,998	
"Technological equipment"		4,200	
4426			
"Deductible VAT"			798

If the immobilization would have required assembly, the previous example is repeated, the purchase dates being the same, except that the assembly and commissioning are carried out by a specialized company, which invoiced the service provided at 800 lei, VAT 19%.

The system of entries is as follows:

1. Purchase of work equipment:			
%	404		4
231	"Fixed assets suppliers"	,998	
"Tangible fixed assets in course of construction"		4,200	
4426			
"Deductible VAT "			798
2. Recording the installation and commissioning of the asset through the installation company:			
%	404		
231	"Fixed assets suppliers"	952	
"Tangible fixed assets in course of construction"		00	8
4426			
"Deductible VAT"			1
		52	
3. Reception of the work:			
2131	231		
"Technological equipment"	"Tangible fixed assets in course of construction"	5,000	

With regard to the construction of property, plant and equipment, we present the following situation:

A company realizes on its own, a working plant, for which a number of expenses were incurred. Thus, in year N: expenditure on raw materials 1,500 lei, expenditure on spare parts 800 lei and expenditure on wages 700 lei. In year N+1, a further 500 lei is spent on staff salaries and, at the end of the period, the building is handed over and put into use.

The basic recording of the acceptance of the installation at entity level involves:

Accounting operations recognized in year N:

1. Recording of raw materials expense:			
601	301		
"Expenditure on raw materials"	"Raw materials"	1,500	
2. Recording expenditure on spare parts:			
6024	3024		
"Spare parts expenditure"	"Spare parts"	800	
3. Recording expenditure on salaries:			
641	421		
"Expenditure on staff salaries"	"Staff - salaries due"	700	

4. Settlement of the production cost in the amount of 3.000 lei on the fixed assets in progress:

231	722	
"Tangible fixed assets in course of construction"	"Income from production of tangible fixed assets"	3,000

Accounting operations highlighted in year N+1:

5. Recording of payroll costs:

641	421	
"Expenditure on staff salaries"	"Staff - salaries due"	500

6. Settlement of expenditure on staff salaries on fixed assets in course of construction:

231	722	
"Tangible fixed assets in course of construction"	"Revenue from the production of tangible fixed assets"	

7. Reception of the installation at production cost of 3,500 lei (expenditure incurred in year N, 3,000 lei and expenditure incurred in year N+1, 500 lei):

2131	231	
"Technological equipment (machinery, plant and equipment)"	"Tangible fixed assets in course of construction"	3,500

Similar to the entry, operations regarding the exit of tangible fixed assets from the entity, present particularities depending on the exit paths, namely: sale, scrapping, donation, shortages in the inventory, causes of force majeure, participation in the capital of other entities,

Regarding the exit of tangible fixed assets through sale, we start from the following consideration:

An entity sells a plant at a price of 7,000 lei, VAT 19%, the book value of entry being 12,000 lei and the calculated depreciation 9,000 lei. Posting the sale and delisting generate the following entries.

1. The sale of the plant is recorded:

461	%	8
"Sundry debtors"	7583	,330
	"Proceeds from the sale of assets and other capital operations"	7,000
	4427	
	"VAT collected"	1,330

2. The de-registration of the installation shall be recorded:			
%	2131		1
2813	"Technological	2,000	
"Depreciation of installations and	equipment"		
means of		9,000	
transport"			
6583			
"Expenditure relating to			3
transferred assets and other capital		,000	
operations"			

Another way of disposing of tangible fixed assets relates to scrapping. Thus, we present the following study: a company takes a machine out of service at a book value of 90,000 lei, depreciated at 70,000 lei. The decommissioning is carried out by a third party, which invoiced the service rendered at 5,000 lei, VAT 19%.

These operations involve the following entries in the entity's accounting records:

1. Recording of the service rendered by the third party, in relation to the scrapping of the equipment:

%	401		
628	"Suppliers"	5,950	
" Other expenditure on services			
performed by third parties		5,000	
"			
4426			
"Deductible VAT"			950
2. De-registration of the machine:			
%	2131		
2813	"Technological	90,000	
"Depreciation of plant and means	equipment"		
of transport		70,000	
"			
6583			
"Expenditure relating to assets			
disposed		20,000	
of and other capital operations"			

3. Revaluation of tangible fixed assets

As a result of economic, social and political fluctuations, the initial value of a tangible fixed asset may increase or decrease. In such situations, revaluation of tangible fixed assets is performed.

OMFP 1802/2014 provides that entities may revalue existing tangible fixed assets at the end of the financial year, so that they are presented in the accounts at fair value, with the results of this revaluation reflected in the financial statements prepared for that year.

The revaluation of an item of property, plant and equipment may result in;

- a gain when fair value is greater than the net carrying amount;
- a write-down when the fair value is less than the net carrying amount.

To illustrate the recording in the accounts of a positive revaluation of tangible fixed assets, we start from the situation in which an entity, at the end of year N when performing the first revaluation of buildings, found that the fair value of tangible assets (buildings) is higher by 40,000 lei, compared to the book value of 80,000 lei. The calculations and accounting entries are as follows:

In year N:

- book value of tangible assets: 80,000 lei
- fair value of tangible assets: 120,000 lei
- positive difference from the revaluation of tangible assets: 40,000 lei

212	105	4
"Buildings"	"Revaluation reserves"	0,000

In order to illustrate the recording in the accounts of a negative revaluation after a previous positive revaluation, we repeat the previous situation with the mention that in the year N+1, for the same depreciable tangible fixed asset, a depreciation of 44,000 lei is recorded.

In N+1, the revaluation difference is recorded:

- book value: 120,000 lei
- fair value: 76,000 lei
- revaluation differences: - 44,000 lei
- revaluation reserves created: + 40.000 lei
- impairment adjustment expenses: 4,000 lei

%	212	4
105	"Buildings"	4,000
"Revaluation reserves"		
6813		40,000
"Operating expenditure on adjustments for depreciation of fixed assets"		4,000

If a new revaluation is carried out at the end of N+2 and an increase of 20,000 lei in the fair value is found, the following procedure is followed:

In N+2, recording the revaluation difference:

- book value: 76,000 lei
- fair value: 96,000 lei;
- current revaluation differences: +20,000 lei;
- depreciation (adjustment expenses) recorded in previous years: - 4,000 lei;
- revaluation reserves to be established: 16,000

212	%		2
"Buildings"	7813	0,000	
	"Income from fixed asset		4
	impairment adjustments"	,000	
	105		
	"Revaluation reserves"		
			1
		6,000	

4. Depreciation of tangible fixed assets

Accounting standards define depreciation as the systematic allocation of the depreciable amount of a fixed asset over its useful life.

The determination of the computed amount for allocating the depreciable amount of an asset is determined by: the useful life of the asset, the depreciable amount and the depreciation method used.

Depreciation is calculated and allocated according to the depreciation methods, namely: straight-line depreciation, declining balance depreciation and accelerated depreciation.

Straight-line depreciation consists of the calculation and uniform allocation of the carrying amount of tangible fixed assets over their useful life.

Declining depreciation consists of the uneven calculation and allocation of the book/depreciable value of the tangible fixed asset over its useful life, in the sense that declining-balance depreciation is higher than straight-line depreciation in the early years and lower in the later years. Declining depreciation is calculated in two ways, taking into account the moral wear and tear or not taking the moral wear and tear into account.

The accelerated method consists in including in operating expenditure in the first year of operation a proportion of up to 50% of the book value of the fixed asset, with depreciation calculated using the straight-line method in subsequent years.

The principle of recording depreciation is as follows:

6811	281	
"Operating expenditure on depreciation of fixed assets"	on	"Operating expenditure depreciation amount of fixed assets"

5. Conclusions

The approach to events and transactions in tangible fixed assets presents both the essential theoretical aspects of these structures and a number of ways of accounting for them according to the transactions in which they are found.

Due to their importance, as a result of the benefits generated by their use and starting from the fact that this balance sheet structure is vital for the proper functioning of economic entities, we can conclude that from an accounting point of view it should be treated with the utmost care.

References:

1. Accounting Law 82/1991, as amended and supplemented.
2. Luta, D., 2021. *Contabilitate financiara*, ediție revizuita, [Financial Accounting, Revised Edition]. Pitesti: Independenta Economica Publishing House.
3. Order of the Minister of Public Finance no. 1.802/2014 for the approval of the Accounting Regulations on individual annual financial statements and consolidated annual financial statements, with subsequent amendments and additions.