

ASSESSMENT OF THE COMPANY'S PERFORMANCE IN TERMS OF GAINS AND LOSSES FROM REVALUATION OF FIXED ASSETS RECORDED IN EQUITY

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Abstract

This article proposes an improvement in the performance of Romanian companies reporting taking into account the influence of earnings and losses recorded directly in equity. One of the objectives of this research was to assess the impact on the revaluation amounted to reflect the true performance of the companies.

We carried out a study on the method of accounting for gains and losses resulting from revaluation of fixed assets and selling them at a higher value than their net book value. As a result of the study conducted, it is showed that there is a correlation between gains and losses to be booked directly to equity and appreciation of the company's performance.

Keywords: performance, gains from revaluation, revaluation losses, equity global result

JEL classification: M41

1. Introduction

The work investigates the relationship between the performance of companies in Romania and changes in capital and reserves, focusing in particular on how the accounting gains or losses from revaluation of tangible fixed assets according to the current requirements of the users of financial information. In the current economic context, the performance of companies represents a valuable piece of information for most of users of information. A particularly important role in providing information on the performance of a

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company's financial statements were prepared in accordance with accounting regulations.

One of the most important effects of the economic and financial crisis is the modification of the information requirements of users who are no longer interested in just the last performance of the company, but want to be able to predict the future performance of the company's evolution on the basis of information provided by the financial statements. Under the conditions of a european macroeconomic environment and volatile world, full of uncertainties, especially due to the fact that in the year 2016 have held numerous events that have caused the imbalances in the world economy, is hardly appreciated the performance of the global future.

The aim of this study is to correct distortions concerning the assessment of the performance of companies in Romania considering the gains or losses recorded in equity. Such distortions may be caused by the lack of adequate accounting policies, insufficient training of employees of the company and of overestimating or underestimating the profits for the current period (appreciation of some weak performances in the future or exaggerated increase of revaluation reserves).

Because in the latest period, the company's performance is increasingly oriented toward the future, gains and losses recorded directly in equity comprise elements that are oriented toward the future, which are not developed yet, but that will turn into future earnings or losses by selling related items. (Breban L, 2017)

2. Research methodology

The present research aims at bringing the discussion and clarification of some aspects of the assessment of the performance of companies in Romania on the basis of "The situation of own capitals changes". The article also brings into attention to aspects concerning the accounting gains and losses from revaluation of fixed assets into capital.

Two assumptions underlie the research foundation of this research, namely:

1. Gains and losses from revaluation of fixed assets accounted for in equity reflects the company's performance.

2. In order to appreciate the full performance, and gains and losses from revaluation of fixed assets should be recorded both in the profit and loss account and the capital and reserves.

In order to achieve the proposed objective will be analysed on the basis of a case study, assessment of company performance in terms of earnings or losses from revaluation of fixed assets accounted for in equity according to the method of assessment chosen according to IFRS. Accounting operations carried out within the framework of Romanian companies listed what were the subjects of the study case, have taken into account the provisions of IAS 16 tangible fixed assets, IAS 36 impairment of assets, OMFP nr. 1802/2014, OMFP nr. 1286/2012 for approval of Regulations of accounting in accordance with international financial reporting Standards, applicable to companies whose securities are admitted to trading on a regulated market.

2.1. Revaluation of the theoretical – methodological approaches – immobilisations

Excessive rise in prices during the period of hyperinflation from Romania (until 2003) and the fierce price developments in the field of real estate up in 2009, contributed to the updating of the values of land and buildings in that period. Existing financial imbalances have prompted Romanian companies to undertake revaluation of fixed assets amounted to update the accounting value.

As a result of the revaluation of the fixed assets you can record two types of results: win (favorable/positive differences) when the fair value is higher than the net book value or loss (negative/unfavourable differences) when the fair value is less than the net book value. The results of the revaluation of fixed assets are accounted for in the profit and loss account and/or in the company's equity, influencing the level of performance of the company. (Jianu I., 2007)

2.1.1. Gains from the immobilisations revaluation

Fixed assets revaluation gains shall mean those favourable differences (fair value > net accounting value) that will be registered in accounting considering if previously exists or not the recognized depreciation. Where as a result of reassessment shall be entered in the accounts on an impairment, 105 account balance must be checked "Reserves from revaluation". Depreciation is low in the first place, din 105 account balance and if this isn't enough, then the debit account 655 "Expenses from revaluation of tangible fixed assets". (IASB, 2015)

Unlike IFRS, Romanian regulations treats revaluation gain included in the revaluation reserve. This gain will be capitalized by transferring directly to reserve when you represent a gain realized at the time of removal from official records of the asset for which the book or as the asset is used by the entity. (Istrate C., 2009)

2.1.2. Losses from the immobilisations revaluation

The resulting difference between the fair value and the book value of the asset should be presented as a minus value (loss) when the fair value is less than the book value.

Depending on the method of calculation chosen (historical cost/fair value), economic entities accounted for losses on revaluation of fixed assets differently. Thus, in the case of the historical cost assessment, adverse revaluation difference shall be accounted for in the expense account flow with depreciation (6813 account) and credited to the account of adjustments for depreciation (2913 account), without diminishing the value of registering asset. In the case of the choice of the method of evaluation at fair value revaluation difference, bad falls directly on registration of asset value while reducing the balance of account 105 (where applicable) and/or debited the account of the 655. (IASB, 2015)

2.2. Results and Discussion

Through the present research it was concluded that "The situation of own capitals changes" reflects the company's performance and meet the needs of users of financial information.

For a better understanding of how accounting gains from revaluation of fixed assets amounted to suppose the existence of two companies (X and Y) quoted Romanian that prepare statements in accordance with IFRS. The two companies acquiring at 31.12.N., one machine with input value of 50.000 ron, linear depreciable in 10 years.

At 31.12.N+2, the X company reassesses the machine, registering a positive difference from the reassessment of 2.000 ron. Also at 31.12.N+2, the Y company sells the equipment at the price of 62.000 ron. Situation with regard to the revenue and expenditure of the two companies, over the course of the three calendar years is presented in Table no. 1. The values in the Table

no. 1 shall be expressed in national currency at the exchange rate of the euro recorded at 31st of December 2016 according to BNR (1 EUR = 4.5411 Ron).

Table no. 1. The situation of incomes and expenses during N/N+2

Name	X Company			Y Company		
	N Year (RON)	N+1 Year (RON)	N+2 Year (RON)	N Year (RON)	N+1 Year (RON)	N+2 Year (RON)
Ownership equity	25.000	25.000	25.000	25.000	25.000	25.000
Reserve from the corporal immobilisations	0	0	12.000	0	0	0
Depreciation of installations and means of transport	5.000	5.000	5.000	5.000	5.000	5.000
Expenses concerning the energy and water	1.000	1.000	1.000	1.000	1.000	1.000
Expenses with the wages	2.000	2.000	2.000	2.000	2.000	2.000
Exploitation expenses concerning the depreciation of fixed assets, investments and biological assets valued at cost.	5.000	5.000	5.000	5.000	5.000	5.000
Expenses concerning the intangible and tangible immobilisations deeded and other capital operations	0	0	0	0	0	50.000
Incomes from the sale of intangible and tangible immobilisations and other capital operations	0	0	0	0	0	62.000

Source: Author's projection

Whereas at 31.12.N+2, the X company performs the asset revaluation and the company sells assets to the value Y of 62.000 ron, will be duly accounted for gains from these operations. Will be analysed the impact of earnings from asset revaluation and sale of deployed operations, according to the two companies. The projection of the "Situation of the profit and loss account" and "Situation of own capitals changes", in the case of two companies, for the purpose of highlighting and understanding the influence of

fixed assets amounted to revaluation gains on the appreciation of financial performance.

In the Table no. 2 is presented to the "Situation of the profit and loss account" from 31.12.N+2, corresponding to the two companies as a result of the transactions carried out. The values in the Table no. 2 shall be expressed in national currency at the exchange rate of the euro recorded at 31st of December 2016 according to BNR (1 EUR = 4.5411 Ron).

Table no. 2. The situation of the profit and loss account at 31.12. N + 2

Element's name	X Company	Y Company
	(RON)	(RON)
Income from sale of tangible and intangible immobilisations and other capital transactions	0	62.000
Expenses concerning the energy and water	1.000	1.000
Expenses with the personnel's wages	2.000	2.000
Exploitation expenses concerning the depreciation of the fixed assets, investments and biological assets valued at cost.	5.000	5.000
Expenses concerning the intangible and tangible immobilisations deeded and other capital operations	0	50.000
Exercise's result	-8.000	4.000

Source: Author's projection

By comparing the data from the "Situation of the profit and loss account" for the company as well as company X and Y, it is noted that the result for the year N + 2 is different. The positive difference in asset revaluation and the added margin established following the commercial sale thereof, leading to completely different financial performance, respectively loss (X Company) and profit (Y Company).

The account balance from "Profit or loss" is equal to -8.000 ron in the case of company X and 4.000 ron in the case of company Y. Gains derived from revaluation of assets are only recorded in the equity of the company X, without the influence of the "Situation of the profit and loss account". Thus, the result of the Company Y, at 31.12. N + 2, equals to -8,000 ron (Table no.2).

In the case of Company Y, so the income from sale of tangible fixed assets (worth 62.000 ron) and expenditure on tangible asset headings will be

transferred to (in the amount of 50.000 ron), are recorded in the "Situation of the profit and loss account", leading to a profit of 4.000 ron (Table no.2).

It can be concluded that the appreciation of the company's performance is different in the case of the two companies, even though the value representing the corresponding asset sale shopping addition is equal to the positive difference resulting from the revaluation of the asset. "The situation of the profit and loss account" does not provide sufficient information and relevant to the performance of the company, as it does not contain information concerning the modification of capital and reserves. Thus, the presentation of statements providing reliable and complete information regarding the company's performance is absolutely essential in the light of the accounting regulations in force.

"The situation of own capitals changes" completes the information with the help of the "Situation of the profit and loss account". The result for the year, although it is different in the case of two companies, determined to obtain equal equity, 29.000 ron respectively (Table no. 3). Thus, the gains from revaluation increase of capital and reserves and determine, at the same time, a more attractive balance sheet reporting in relation to the users of financial information.

From the analysis of the two statements ("Situation of the profit and loss account" and "Situation of own capitals changes") it follows that the revaluation reserves amounted, although he did not pass through profit or loss, are embedded in the equity of the company. Thus, the performance of the company is not completely correct and reflected on the basis of "The situation of the profit and loss account". It reflects the company's profits as the difference between the proceeds from the sale of assets and expenses with assets ceded without taking into account the revaluation reserve which is recorded in the "Situation of own capitals changes". Changes in the level of capital and the two companies are presented in Table no. 3. Values in the Table no. 3 shall be expressed in national currency at the exchange rate of the euro recorded at 31.12.2016 according to BNR (1 EUR = 4.5411 Ron).

Table no.3. The situation of own capitals changes on 31.12.N+2

Crt. no.	The situation of own capitals amendment	X Company	Y Company
		(RON)	(RON)
1.	Initial own capital	25.000	25.000

2.	Reserves from the tangible immobilisations assessment	12.000	0
3.	Exercise's result	-8.000	4.000
4.	Final own capital (1+2+3)	29.000	29.000

Source: Author's projection

On the basis of the two statements above ("Situation of the profit and loss account" and "Situation of own capitals changes"), the two companies will establish the "Situation of global result" that reflects, in the opinion of many experts in the field, true to the company's performance and complete.

"The situation of global result" from this present example, lead to different results, taking into account the fact that the profit obtained from the sale of assets is taxed according to OMFP 1802/2014 and the revaluation gain is subject to tax deferred under IFRS. Where, wouldn't determine the odds of tax specified above, company X and company Y will record at 31.12.N+2 a global draw result. Thus, the company's performance is assessed on the basis of loyal "Situation of global result", provided that the economic environment in which the company operates to be stable. At the same time, investors, associations and others interested in the good of the company, will have to follow to maintain own funds at a steady level.

"The situation of global result" as shown in the Table no. 4, show that the level of performance is higher in the case of company Y as opposed to the company's X performance level. Where would not be calculated the profit tax from the sale of assets and the deferred profit tax which relates to the revaluation reserve, the performance of the two companies would have been equal. The values in the Table no. 4 shall be expressed in national currency at the exchange rate of the euro recorded at 31st of December 2016, according to BNR (1 EUR = 4.5411 Ron).

Table no.4.The situation of global result for the financial year ended at 31.12.N+2

Indicator	X Company (RON)	Y Company (RON)
Incomes		
Incomes from sale of tangible and intangible immobilisations and other capital operations	0	62.000
Total of Operational Incomes	0	62.000
Expenses		

Expenses concerning the energy and water	1.000	1.000
Expenses with the personnel's wages	2.000	2.000
Operating charges relating to the depreciation of the fixed assets, investments and real estate assets valued at biological cost	5.000	5.000
Expenditure relating to intangible and tangible asset headings will be transferred to other operations and capital	0	50.000
Total Operational Expenses	8.000	58.000
The Outcome Of Operational Activities	-8.000	4.000
Expenses with the profit tax	0	-640
The result of the related exercise	-8.000	3.360
Other elements of the global result:		
from which the other elements of the outcome that will not be reclassified into profit or loss:		
Gains from revaluation of fixed assets amounted to	12.000	0
Deferred tax related to other elements of the outcome of the global	-1.920	0
Other elements of the outcome of the related global financial year (without tax)	10.080	0
Total global result of the year N + 2	2.080	3.360

Source: Author's projection

Whereas the revaluation reserves represent an adjustment in order to preserve equity, does not justify the determination of deferred tax related to these reserves. Thus, the performance of company X is erroneously lowered tax deferred earnings with related revaluation totalling 1.920 ron. For investors, associated and other people interested in the smooth running of business, revaluation gains amounted reflects the company's performance in terms of equity at its disposal and learned updated in real time.

Whereas the economic environment companies has been and is quite unstable, it is absolutely essential to update on a regular basis with sufficient capital and companies. This must be entered on line better information regarding the accounting figures, as well as to meet some aspects of financial or tax.

Positive revaluation accounts registered by the company X, is subject to corporation tax on the depreciation measure to restrain reassessed. Thus, the

performance of company X is subject to corporate income tax expense which relates to the revaluation reserve in the amount of 1.920 ron.

3. Conclusions

In the case of study undertaken at the level of the Romanian companies listed it was analyzed the influence of modification on the capital appreciation of financial performance. Also, the two research hypotheses have been validated.

Hypothesis no. 1 - Gains and losses from revaluation of fixed assets accounted for in equity reflects the company's performance.

As a result of the case study presented the first hypothesis is validated. It is observed that in order to assess the performance of the company's capital and reserves, the situation of the change is the most conclusive showcasing information on the outcome of future earnings and the company based on the unrealised losses recorded directly in equity.

Hypothesis no. 2 - In order to appreciate the full performance, and gains and losses from revaluation of fixed assets should be recorded both in the profit and loss account and the capital and reserves.

Hypothesis no. 2 validated. The results of the case study analyzed demonstrates that full performance is given by the overall result, which encompasses both the result of operational year ("Situation of the profit and loss account") as well as other elements of the overall result (changes in capital and reserves).

The study offers practical directions undertaken by the development of the capital and reserves of the variation in reported for the purposes of the assessment of all of the company's performance and create prerequisites for the development of a uniform policy regarding the choice of the method of valuation of tangible fixed assets. In view of the current requirements of the users of information, earnings and losses recorded in the equity answer best their needs whereas the future performance of the company reflects.

One of the limits of the research undertaken relate to the impossibility of determining which factors depends on accomplishing future gains and losses recorded in equity, given the unstable economic environment in our country.

Future research will be considered to determine a uniform methods for the evaluation of fixed assets amounted to which, through the accounting earnings and losses in equity, provide reliable information regarding the

company's performance even in an unstable economic environment conditions. Also, future deterioration of the study could be a long-term prognosis as the correct value of unrealised losses or gains recorded in equity.

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