ACCOUNTING AND FISCAL POLICIES REGARDING
THE TREATMENT OF ASSETS’ DEPRECIATION –
NATIONAL AND INTERNATIONAL

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Abstract:
A large part of fixed assets depreciate with time, a fact that requires their
replacement, usually, through amortization. Amortization appears as a value
equivalent of the irreversible deterioration of an asset as a result of its functioning,
of the effects of natural factors, of technical progress and of other causes. A part of
the assets, whose use is temporally unlimited, as, for example, lands and financial
investments, is not amortized; a possible depreciation of them is covered through
adjustments (provisions). Accordingly, maintenance self-financing has an
important consequence upon the performance of an economic entity; it includes
amortization that provides the renewal of the fixed assets that are out of use and
the depreciation or loss of value adjustments of active elements and provisions1.

Key words: accounting amortization, fiscal amortization, adjustment,
depreciation, value loss, international accounting standard

JEL classification: M41, H30

1. Amortization – a component of maintenance self-financing

According to its time duration, depreciation may be: permanent or
irreversible – which is quantified and registered through amortization; temporary
or reversible – which is quantified and set forth through value adjustments.

Value adjustments include all corrections meant to take into account the
value decreases of the assets settled when drawing out the balance sheet,
irrespective whether such decreases are definitive or not.

Amortization is a very complex notion, phenomenon, and process, having
technical, accounting, economic, financial, juridical, fiscal, etc. determinations. It
represents the systematic allocation within expenditures of the amortizable value of
an asset during its whole useful life. There are several conceptions regarding

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1 M. Teodorescu, L. Badea, Finanțele întreprinderii, Cartea Studențească Publishing House,
amortization. According to the economic (accounting) conception of amortization, economic entities use the acquired goods in order to get economic advantages during several periods of time. While implementing an engagement accountancy and separating financial exercises, one should charge the good’s input value so that each exercise bears an expenditure that matches the advantages obtained after using that good. Assets’ buying and use represents expenditures and also an element of the cost borne by the company. Hence, the need to gather the funds necessary to renew consumed amortizable assets, at the end of their usage period, through future incomes, without resorting to the company’s owned capitals or without contracting debts. As the economic advantages of an asset are consumed by the company, the accounting value of the asset accordingly diminishes, usually owing to registering amortization expenditures. Economic or accounting amortization is determined according to the estimations and to the calculations resulting out of the decisions taken by the company’s management. It is not confused with fiscal amortization which is determined while implementing amortization law and its methodological norms. Fiscal amortization does not affect the company’s performance; it only affects taxable mass, and, implicitly, the calculation of profit taxes. Time differences between accounting and fiscal amortization determine temporary taxable or deductible differences.

According to the juridical and accounting conception, amortization is connected with the patrimonial conception of the balance sheet. The French Accounting Plan stipulates that amortization is an accounting finding of the decrease of the value of an asset element which is the result of its use, of time lapse, of a shift of technique or of any other reason.

According to the financial conception, amortization is a manner of retrieving invested capital, a source of financing the fixed asset. The accumulation of yearly amortizations should allow the replacement of the fixed asset that cannot or should not be used anymore (due to its moral depreciation). Consequently, amortization becomes an element of self-financing capacity. It brings an essential contribution to the variation (increase) of the global working capital and can be calculated by starting either from exploitation gross surplus (deductive method), or from the net result (additive method).
| No. | Deductive method                                                                 || Additive method                                                                 |
|-----|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| 1.  | EXPLOITATION GROSS SURPLUS                                                      | NET RESULT                                                                      |
| 2.  | + Other exploitation incomes to be received (except those resulting out of selling fixed assets) | + Calculated expenditures (amortizations, provisions, depreciation or value loss adjustments) |
| 3.  | - Other exploitation expenditures to be paid (except those expenditures regarding the ceded fixed assets) | - Calculated incomes (incomes resulting out of resumed provisions and of depreciation or value loss adjustments) |
| 4.  | + Receivable financial incomes                                                   | - Incomes resulting out of selling the assets                                   |
| 5.  | - Payable financial expenditures                                                 | + Non-amortized value of given ceded fixed assets                               |
| 6.  | + Extraordinary incomes                                                          | - Share of the subsidies for investments registered as incomes                 |
| 7.  | - Extraordinary expenditures                                                     |                                                                                 |
| 8.  |                                                                                | - Profit taxes                                                                  |
| 9.  | = Self-financing capacity                                                       | = Self-financing capacity                                                       |

Amortization is a complex phenomenon, with multiple determinations and consequences; it represents the main source of self-financing in case of simple reproduction, of the simple reconstitution of immobilized capital (patrimony preservation). When the management of the economic entity targets to expand activity owing to the development (value increase) of the assets, they should also resort to external financing resources (credits and non-repayable financing, bank and/or bond loans, subsidies, donations, etc.) beside internal sources (net profit distributions).

Amortizations (as value adjustments) determine expenditures without resources out-comings (they do not generate negative cash fluxes).

Amortization represents an expenditure that displays consumption, namely the asset’s use; its value is settled starting from the cost (acquisition, production cost) for which there are clear evaluation rules; the accounting registration of amortization does not directly affect the assets account; instead, it adjusts the accounting value of the amortized asset through the use of an amending account in order to preserve data regarding the initial value of the asset.

2. The elements of depreciation according to international accounting standards

Specialized literature describes two accounting methods for evaluating fixed assets in financial reports: amortization method and depreciation method. The two methods provide the reevaluation of the fixed assets’ value at the moment of drawing out financial reports and start from the idea that the assets’ value is influenced:
- By an irreversible depreciation that has as a consequence the acknowledgement of an amortization, and
- By a reversible depreciation that has as a consequence the acknowledgement of a depreciation adjustment.

According to the International Accountancy Standards amortization represents the systematic distribution of the amortizable value of an asset during its whole useful life\(^1\). The amortization of an asset begins when the asset is ready to be used, namely when it fits the place and state required by its functioning according to the manner envisaged by the management of the economic entity\(^2\). Amortization should be acknowledged even in case the fair value of the asset surpasses its accounting value as long as the asset’s residual value\(^3\) does not overpass its accounting value\(^4\).

Amortizable value represents the cost of an asset (in case the company intends to use the good until the end of its economic life duration) or another value that replaces the cost in financial reports, except the residual value of the asset (in case the economic entity intends to replace the asset sooner than the end of its economic life duration).

The choice of the amortization method should display the rhythm of consuming the future economic benefits of the asset as it is envisaged by the economic entity. An economic entity may use several methods of amortization: linear method, degressive method, and the method of production units. Each amortization method typically influences amortization expenditures; linear amortization has as a result a constant expenditure during the useful life duration of the good, in case the residual value of the asset does not change; degressive amortization has as a result a decreasing amortization expenditure during the useful life duration of the asset; the amortization calculated according to the method of production units has as a result an expenditure based upon the asset’s use or upon the production to be obtained.

Depreciation represents an expenditure that shows an asset’s value loss that regards its sale or use; a distinct case refers to the assets evaluated according to their re-evaluated value. An adjustment regarding the depreciations or value losses occurs when the accounting value of an asset surpasses retrievable value in case of fixed assets, or the net value of manufacturing in case of stocks, or the fair value or amortizable cost in case of financial instruments.

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1 According to IFRS, the term amortization” is generally used instead of the term “depreciation”, in case of an intangible asset, the two terms having the same meaning.
4 The accounting value of an asset is the asset’s acknowledgeable value after cumulated amortization and cumulated losses are deducted out of depreciation.
The acknowledgement of an adjustment regarding depreciation or value losses is a consequence of implementing the principle of prudence in accountancy.

*Depreciation*, according to the International Accounting Standards, represents the size of the positive difference\(^1\) between the accounting value of an asset and its retrievable value, case when the asset is considered to be depreciated. When retrievable value is higher than accounting value, the asset is value appreciated, and such appreciation is not registered by accountancy due to the principle of prudence.

From the point of view of accountancy registering:

- *Amortization’s value* should be acknowledged as an expenditure within the *Account of profit and loss*, according to IAS 16 *Tangible assets* and IAS 38 *Intangible assets*, and

- *Depreciation’s value*, as it is defined by IAS 36 *Assets’ depreciation*, should be acknowledged as expenditure in the *Profit and loss account*, except the case when the asset is registered at its re-evaluated value. According to IAS 36 *Assets’ depreciation, value depreciation* usually regards a deterioration of an asset’s value which is less probable to disappear in the future due to the fact that it is determined by moral depreciation, unfavorable market conditions, etc. In order to determine value loss, one should first estimate the asset’s retrievable value and, implicitly, the net sale price and utility value.

The registering of depreciation loss can be done in two manners, depending on the accounting condition of the depreciated asset: in case of an asset that has not been re-evaluated, depreciation loss is going to be directly acknowledged within the profit or loss of the period; in case an asset has been re-evaluated (according to the re-evaluation model of IAS 16), depreciation loss should be acknowledged within the Global result, through diminishing the surplus resulting after re-evaluation, when the depreciation loss does not overpass the re-evaluation surplus of that asset. In case depreciation loss is higher than re-evaluation surplus, value loss is first charged upon re-evaluation reserve; after its exhaustion, it is acknowledged as expenditure in the profit or loss of the period.

*Resuming a depreciation loss*. IAS 36 also specifies the cases when companies should resume (diminish) a depreciation loss. The acknowledgement of depreciation loss\(^2\) is done through debiting expenditures account and to crediting incomes account in case one annuls depreciation loss.

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\(^1\) Retrievable value smaller than accounting value

\(^2\) A depreciation loss is the difference between the accounting value (higher) and retrievable value of an asset or of a cash generating unit.
The standard IAS 36 compels that a value loss acknowledged by financial reports should be resumed, only in case a change of the estimations employed in order to determine retrievable value occurs from the last accountancy registering of depreciation loss.

This loss can be resumed only in case it does not determine an accounting value higher than that determined under the circumstances when no depreciation existed during the previous years.

The estimation of depreciation loss is based upon the existence of certain clues given by data that come out of the economic entity’s external sources (the increase of the market value of the asset, significant changes having a favorable effect upon the technological, economic, juridical or market environment where the economic entity activates) and out of internal sources (important changes in the manner of using an asset).¹

IAS 36 Assets’ depreciation requires that, both after acknowledgement, and after resuming a depreciation loss, the asset’s amortization should be adjusted during the future periods in order to allocate the revised accounting value, except its residual value, in case it exists, during the rest of its useful life. Irrespective of the method employed in order to register depreciation in accountancy, amortizable value should be re-calculated in order to determine future amortization.

The standard stipulates the fact that it is not always necessary the determining of both the fair value of an asset (minus its generated sale cost) and the usage value; it mentions that in case any of these values surpasses the accounting value of the asset, the asset is not depreciated and, accordingly, the estimation of the other values is not necessary.

The calculation of the fair value minus generated sale costs² is possible although the asset in view is not traded on an active market³.

The estimation of the usage value of an asset represents:

⇒ The estimation of the future cash inputs and outputs that derive out of the continual use of the asset and out of its ceding, and

⇒ The implementation of the adequate up-dating rate for these future treasury fluxes.

² Fair value minus sale costs (ceding) represents the value that can be obtained out of selling an asset or a cash generating unit in a transaction occurring under objective circumstances among the interested parts and in full knowledge, minus ceding costs. Ceding costs are costs regarding the change of the level of activity, direct costs attributed to the ceding of an asset or of a cash generating unit, except financing costs and the expenditures connected with profit taxes.
³ According to IFRS, an active market is a market where the following three conditions are simultaneously carried out: the transactional elements on that market are homogeneous; normally, interested buyers and sellers can be found at any moment; prices are accessible for the public.
Usage value is mathematically determined according to the formula\(^1\):

\[
V_u = \sum_{t=1}^{n} \frac{CF_t}{(1 + a)^t} + \frac{VR_n}{(1 + a)^n}
\]

Where:
- \(V_u\) = usage value;
- \(CF_t\) = net cash flow, estimated during “t” period;
- \(t\) = period (as a rule, expressed in years);
- \(n\) = duration of estimation;
- \(VR_n\) = residual value, estimated to be obtained at the end of the estimation duration;
- \(a\) = up-dating rate.

In order to calculate the cash flow, let’s notice the widely used formula displayed by specialized works, namely its direct definition:

\[
CF_t = \text{Money received during “t” period generated by the asset} - \text{Payments generated by the asset during “t” period estimated during “t” period generated by the asset during “t” period}
\]

Up-dating rate should be the rate before taxing that shows the current market’s evaluations of the value-time of money and of the specific risks of the asset.

One should mention that at the end of the financial exercise, an economic entity that has registered during the previous years a depreciation loss for an asset or a unit generating cash fluxes\(^2\) has to determine whether new signs capable to annul or diminish the depreciation loss have come out. In case such data exist, the economic entity should again estimate the retrievable value of the asset or of the unit generating treasury fluxes and to resume or diminish the depreciation loss.

Considering the fact that a depreciation loss is acknowledged, evaluated, and registered by accountancy in the profit and loss account or in capital accounts, according to certain estimations, no matter what change of the initial parameters in view during the estimation takes part in influencing the net financial result of the current period or in modifying the reserves.

According to paragraph 60 of IAS 36 Assets’ depreciation, depreciation loss is going to be immediately acknowledged in the profit and loss account of the period, excepting the case when the asset is registered at its re-evaluated value, according to the stipulations of IAS 16 Tangible assets. In case of a re-evaluated asset, any depreciation loss is considered to be a decrease determined by re-evaluation, according to IAS 16 Tangible assets.

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\(^2\) The unit generating treasury fluxes is the smallest identifiable group of assets whose continual use determines cash fluxes, irrespective of the cash in-puts generated by other assets or other groups of assets.
3. The accounting treatment of depreciation in Romania

Nowadays, Romanian accountancy displays the growing tendency towards separating accountancy from fiscality. Accordingly, as regards amortization, two largely different concepts are used at present:

- **Accounting amortization**, stipulated by accounting regulations;
- **Fiscal amortization**, stipulated by fiscal regulations.

**Accounting amortization** represents the amortization that is registered by accountancy as expenditures determined according to certain accounting regulations and rules. In order to register accounting amortization, one should employ rules of accounting amortization, an amortization foundation or an amortizable value, amortization systems as well as amortization durations defined according to an accounting point of view. All these rules and principles are stipulated by OMFP no. 3055/2009 that approves the Accounting regulations in conformity with the European directives.

Accounting amortization is defined by article 31, paragraphs (1) and (2) of OMFP no. 3055/2009 as follows:

(1) Value adjustments include all the corrections meant to take into account the decreases of the values of individual assets, settled at the moment of the balance sheet, irrespective of the fact that the decrease in view is or is not definitive. (2) Value adjustments can be: permanent adjustments, subsequently called amortizations, and/or temporary adjustments, subsequently called depreciation or value loss adjustments, depending on the permanent or provisory character of the assets’ adjustment.

From an accounting point of view, the present regulations maintain the concept of **economic usage duration** which represents the duration of useful life, namely: the period during which an asset is envisaged to be available for being used by an entity; or the number of manufactured units or of similar units estimated to be obtained by the entity while using that asset.

Amortization is settled through implementing the amortization shares upon the input value of the assets. The amortization of tangible assets is calculated beginning with the month following the moment of putting into service until the complete retrieving of their input value. When settling the amortization of tangible assets one has in view their durations of economic use and their usage conditions. The regulation gets nearer to the stipulations of fiscal amortization as regards the moment of beginning calculation and the amortization’s registration by accountancy.

According to national accounting norms, there are four systems of **amortization** employed by companies:

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a) **Lineal amortization** dealing with the uniform inclusion of certain fixed sums within exploitation expenditures, settled according to the number of years of their economic usage;

b) **Degressive amortization** consisting in multiplying the shares of lineal amortization with a certain coefficient; in such a case present legislation in force can be considered;

c) **Accelerated amortization** consisting in including, during the first year of functioning, within exploitation expenditures, an up to 50% amortization out of the input value of the asset. Yearly amortizations for the following financial exercises are calculated according to the amortizable remaining value, based on lineal system, through reporting to the number of remaining usage years. *As calculated amortization should be correlated with the manner of using the asset, and, as there are rare cases when a tangible asset is up to 50% consumed in the first year, it means that the method of accelerated amortization is less employed with accounting views;*

d) **Amortization calculated per product or service unit** occurs when the character of the asset justifies the use of such an amortization method.

According to OMFP no. 3055/2009, *the amortization method to be used should display the manner the future economic benefits of an asset are expected to be consumed by the economic entity. Consequently, economic entities that implement the International Financial Reporting Standards (IFRS) are going to register in their accountancy only accounting amortization, calculated according to economic reasoning, and not fiscal amortization determined according to the fiscal regulations in force at one moment or another. The differences that appear between the accounting result and the fiscal result will determine, in such a case, postponed taxes.*

Amortization is consistently implemented in case of all the assets having the same character and identical usage terms, according to the adopted accounting policy; it can be changed only when it is determined by an error in estimating the manner of consuming the benefits afferent to the tangible asset in view.

Owing to the calculation and registering of the depreciation or value loss adjustments of the assets, they quantify depreciation or the reversible (temporary) value loss of these assets, implementing the demand required to accounting information, namely to offer a “clear, sincere, accurate, and complete” image of “patrimony in all essential aspects”. *As accounting treatment, adjustments resemble provisions. They include all corrections meant to notice the reversible decreasing of the values of individual assets, settled at the moment of the balance sheet.*

Unlike national accounting norms, IASB norms stipulate, in case of fixed assets, that the settlement of retrievable value at the moment of the balance sheet should be done only when there are signs that the asset is depreciated and not each
time the balance sheet is drawn out; the reason resides in the fact that IASB considers that the inventory at the moment of the balance sheet does not exist (excepting intangible assets with a non-determined duration which should be yearly or more frequently tested for depreciation in case there are signs that the asset in view might be depreciated).

4. Fiscal treatment of depreciation in Romania

As a result of the fact that the State’s interest is to diminish amortization expenditures so that profit taxes are as high as possible, accounting amortization is not always identical with fiscal amortization; the registering as expenditures from an accounting point of view may differ, with time, from the registering as deductible expenditures from a fiscal point of view1.

Fiscal amortization, as opposed to accountancy norms, is determined according to certain strict fiscal regulations and rules in order to replace accounting amortization when calculating profit taxes.

Fiscal amortization is regulated by the Fiscal Code2, in article 24, but stipulations regarding it are also displayed by the Methodological Norms of Implementing the Fiscal Code, as well as by the Catalogue3 that regards the classification and the normal functioning durations of fixed assets.

Fiscal amortization has in view the amortization of fixed assets which are defined by article 24 of the Fiscal Code as follows: amortizable fixed asset is no matter what tangible asset that concomitantly fulfills the following conditions:

a) It is detained and used in goods manufacturing and delivering or in services in order to be loaned to third parties or with administrative goals;
b) It has a fiscal value5 higher than the limit settled by Government decision, at the moment of its entering into the contributor’s patrimony;
c) Its normal usage duration is higher than one year.

According to the stipulations of the article previously mentioned, the expenditures afferent to buying, manufacturing, building, assembling, installing or improving amortizable fixed assets are fiscally retrieved through deducting amortization.

4 On January, the 1st, 2005, Government Decision no. 39 came into force, dated November, 30th, 2004 for approval of the Catalogue regarding the classification and normal functioning durations of fixed assets.
The data displayed above show that the notion of amortizable fixed asset represents a strictly fiscal concept, being a limited category of tangible assets. It is associated to the notion of fiscal value instead of input value. Comparing the definitions of tangible assets and fixed assets, one may notice the existence of certain tangible assets which have an input value smaller than the limit settled by Government decision, for which, according to the stipulations of article 24 of the Fiscal Code, the contributor may either choose to deduct the expenditures afferent to the assets or to retrieve such expenditures through amortization deductions. Accordingly, the option for deducting amortization expenditures afferent to these assets (inventory) determines a different treatment of amortization expenditures, namely their division into deductible expenditures when calculating the profit (accounting stipulation) and non-deductible expenditures when calculating the profit (fiscal stipulation), a fact that would damage the unitary non-deductible treatment of accounting amortization1.

Amortizable value should be calculated according to the rhythm of physical depreciation and the evolution of technical progress in order to maximally diminish the losses determined by the obsolescence of functioning assets as compared with the new ones entered on the market. The practice of historic costs accountancy, especially within inflationist environments, has as an effect the maximizing of the possibilities of recovering the immobilized capital through amortization. Fiscal rule compels the companies to amortize their tangible and intangible assets according to the law 2, by using one of the systems of lineal, degressive or accelerated amortization, lineal amortization being a rational and economic system also approved by fiscality3.

The amortization system for an amortizable fixed asset is determined according to the following rules: in case of constructions, the method of lineal amortization is applied; in case of technological equipments, namely of machines, tools and equipments, as well as computers and their peripheral components, the contributor may choose from among the lineal, degressive or accelerated amortization; in case of other amortizable fixed asset, the contributor may choose between the lineal or degressive methods.

In case of the lineal method of amortization, amortization is settled owing to the implementation of a lineal amortization quota upon the fiscal value of the amortizable fixed asset.

In case of the degressive method of amortization, amortization is calculated owing to the multiplication of the lineal amortization quotas with one of the

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2 Law no.15/24.03.1994 regarding the amortization of the capital immobilized in tangible and intangible assets, republished in Monitorul Oficial al României, part I, no. 242/31.05.1999.
following coefficients: 1.5, in case the normal usage duration of the amortizable fixed asset is between 2 and 5 years; 2.0, in case the normal usage duration of the amortizable fixed asset is between 5 and 10 years; 2.5, in case the normal usage duration of the amortizable fixed asset is higher than 10 years.

In case of the accelerated method of amortization, amortization is calculated as follows: for the first year of usage, amortization cannot surpass 50% of the fiscal value of the amortizable fixed asset; for the next years of usage, amortization is calculated through reporting the fixed asset’s remaining value to be amortized to its remained normal usage duration.

In case of amortizable fixed assets, amortization deductions are determined without taking into account accounting amortization. The earnings or losses resulting out of selling or removing from service these fixed assets are calculated according to their fiscal value, diminished with fiscal amortization.

The stipulations of Law no. 15/1994 regarding the amortization of the capital immobilized in tangible and intangible assets¹, republished, with subsequent changes and completions, do not regard the calculation of taxable profit, except the stipulations of article 3, paragraph 2, letter a – according to which fixed assets are represented by the object or the group of objects that are employed as they are and have an input value higher than the limit settled by Government decision, limit that can be yearly up-dated, depending on the inflation index – and of article 8 of the same law which stipulates that: "The normal functioning durations as well as the classification of fixed assets are approved by Government decision. When determining them, they are going to notice the technical and economic parameters settled by designers and manufacturers in the books or technical documentations of the fixed assets in view, as well as the effects of moral depreciation. These durations are going to be periodically revised, but not later than 5 years”.

The normal functioning duration, according to the Catalogue regarding the classification and normal functioning durations of fixed assets², represents the usage duration during which the input fiscal value of the fixed assets is fiscally retrieved through amortization. Accordingly, the normal functioning duration is smaller than the useful (physical) life duration of the fixed asset in view. The introduction of the concept of fiscal amortization determines difficulties as regards the settling of the moment of physical removal from service. In case of different durations, and when the asset is removed from service after termination of its economic (accounting) duration, it may be further fiscally amortized, and in case one has in view the normal (fiscal) duration there is the risk that the fixed asset is further amortized from an accounting point of view. Accordingly, fiscal regulations should be employed only with a fiscal, non-accounting goal; the truly normal life

¹ Law no.15/24.03.1994 regarding the amortization of the capital immobilized in tangible and intangible assets, republished in Monitorul Oficial al României, part I, no. 242/31.05.1999.
² HG no. 2.139/30.11.2004 for the approval of the Catalogue regarding the classification and normal functioning durations of fixed assets, Monitorul Oficial al României, part I, no.46/13.01.2005.
duration after which removal from service may be done is the economic usage duration equivalent with useful life duration, defined as being the period during which an asset is envisaged as available to be used by an entity; or the number of the manufactured units or of similar units estimated to be obtained owing to the use of that asset.

The separation of accountancy from fiscality as regards amortization represents an important step towards the elimination of fiscality out of accountancy because of the danger that makes even the accounting professionals themselves introduce, out of indolence, fiscal norms in accountancy, allowing thus the pollution of accountancy by fiscal norms.

Accordingly, let’s display a case study of a company that has as its main activity the manufacturing of equipments for the building industry. On 01.01.2008 it bought a lathe with a view of using it in its productive activity. The buying value of the equipment (its fiscal value) according to the buying invoice, represents 210,000 lei. Its economic use duration, settled by the company, represents 5 years beginning with the moment of its initial functioning. The company employs the method of lineal amortization both with accounting and fiscal ends in view.

From an accounting point of view: the equipment (lathe) bought represents a tangible asset and is registered within group 21 of the Plan of Accounts, in the category of technical equipments (technological equipments). The monthly registering of the expenditures with the equipment’s amortization, representing 3,500 lei (210,000 lei/5 years/12 months) is done during the whole duration of its economic usage, beginning with the moment of its functioning.

From a fiscal point of view: the equipment (lathe) bought represents a fixed asset. Its monthly fiscal amortization is determined depending on the normal usage duration which is settled according to the Catalogue regarding the classification and the normal functioning durations of fixed assets. Thus, according to the Catalogue, the element “lathe” is to be found within:

⇒ group 2 “Technical equipments, means of transport, animals, and plantations”
  • subgroup 2.1 “Technological equipments (machines, equipments, and labor equipments)”
    • class 2.1.5 “Machines, equipments, and devices for machine building and metal processing”
      o Subclass 2.1.5.2 “Lathes...”

1 Defined according to article 68, point 3, of OMFP no. 3055/2009.
2 In connected with the difference between the useful life duration and the economic duration of a good, there are certain opinions according to which “the useful life duration of an asset may be shorter than its economic life; the estimation of the useful duration of a tangible or intangible good is a problem of professional judgment based upon the company’s experience” M.M.Girbină, Ş. Bunea, Sinteză, studii de caz şi teste grilă privind aplicarea IAS (revizuite) – IFRS, volume I, CECCAR Publishing House, Bucharest, 2006.
This identity code (2.1.5.2 “Lathes...”) has a normal functioning duration of 8 – 12 years.

With a view of determining fiscal amortization, the economic entity employs a normal functioning duration of 8 years.

Monthly fiscal amortization represents 2 188 lei, calculated as follows: amortization share = 100/8 = 12.5%; yearly fiscal amortization = 210.000 x 12.5% = 26 250 lei; monthly fiscal amortization = 26 250/12 = 2 188 lei.

From a fiscal point of view, the company registers the equipment’s amortization beginning with February 2008.

The company registers a monthly amortization of 3 500 lei that represents accounting amortization. Due to the fact that accounting amortization (3 500 lei) > than fiscal amortization (2 188 lei), the difference between the two values (1 312 lei) represents a non-deductible expenditure, from a fiscal point of view. Accounting amortization is not always equal with fiscal amortization (the registering as expenditures from an accounting point of view may differ, with time, from the registering as deductible expenditures from a fiscal point of view).

The methodological norms of implementing the Law of the Fiscal Code stipulate\(^1\) that in order to determine the fiscal value of lands, namely the non-amortized fiscal value\(^2\), in case of amortizable fixed assets, they are going to notice the accounting re-evaluations made after January, the 1\(^{st}\), 2007, as well as the remaining non-amortized part after the accounting re-evaluations made during the period January, the 1\(^{st}\), 2004 – December, 31\(^{st}\), 2006, set forth on December 31\(^{st}\), 2006. The accounting re-evaluations, made after January, the 1\(^{st}\), 2004, of amortizable fixed assets that have no non-amortized fiscal value are not retrieved through fiscal amortization. In case after December, the 31\(^{st}\), 2003, one makes re-evaluations that determine a decrease of their value, one should operate a decrease of the re-evaluation reserve within the margins of the reserve’s crediting balance, according to the backward order of the reserve’s registering; the fiscal value of lands and the non-amortized fiscal value of amortizable fixed assets is accordingly recalculated. Under such circumstances, the part of the re-evaluation reserve which has been previously deducted is included within the taxable incomes of the period during which the re-evaluation operations subsequent to December, 31\(^{st}\), 2003 are done.

In case of the re-evaluations made after January, the 1\(^{st}\), 2008, it is quite important to notice the definition given by the Fiscal Code to the fiscal value of fixed assets and lands\(^3\) as being the buying or production cost or the market value of fixed assets obtained free of charge or made up as contribution, at the moment

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\(^1\) Government’s decision no. 44/2004 that approves the methodological norms of implementing Law no. 571/2003 regarding the Fiscal Code - art. 71\(^3\)

\(^2\) The non-amortized fiscal value represents the difference between the fiscal input value and the value of fiscal amortization.

\(^3\) Fiscal Code: art. 7 paragraph 1 point 33.
of their entering the contributor’s patrimony, employed in order to calculate fiscal amortization according to circumstances. Fiscal value also includes the accounting re-evaluations made according to the law. In case one operates re-evaluations of amortizable fixed assets that determine a decrease of their value under the buying or the production cost or under the market value of the fixed assets obtained free of charge or made up as a contribution, according to circumstances, the non-amortized fiscal value of amortizable fixed assets is recalculated up to the level of the value settled according to the buying or production cost or to the market value of the fixed assets obtained free of charge or made up as a contribution, according to circumstances. In case one operates re-evaluations of amortizable fixed assets that determine a decrease of their value under the buying or the production cost or under the market value of the fixed assets obtained free of charge or made up as a contribution, according to circumstances, the non-amortized fiscal value of amortizable fixed assets is recalculated up to the level of the value settled according to the buying or production cost or to the market value of the fixed assets obtained free of charge or made up as a contribution, according to circumstances. In case one operates re-evaluations of amortizable fixed assets that determine a decrease of their value under the buying or the production cost or under the market value of the fixed assets obtained free of charge or made up as a contribution, according to circumstances, the non-amortized fiscal value of amortizable fixed assets is recalculated up to the level of the value settled according to the buying or production cost or to the market value of the fixed assets obtained free of charge or made up as a contribution, according to circumstances. In case of re-evaluating the lands that determine a decrease of their value under the buying cost or under the market value of those obtained free of charge or made up as a contribution, according to circumstances, the fiscal value represents the buying cost or the market value of those obtained free of charge or made up as a contribution, according to circumstances.

Let’s notice the fact that beginning with January, the 1st, 2008, the expenditures representing the value of fixed assets’ depreciation when, as a result of a re-evaluation, a decrease of their value is registered, are fiscally non-deductible expenditures when calculating taxable profit.

From a fiscal point of view, value adjustments are divided into two categories:

- **Fiscally deductible adjustments** that imply the right of deducting the expenditures afferent to their foundation out of the exercise’s result. In such a case, economic entities profit by a delay of the profit taxes due to the fact that it is calculated and paid only at the moment of its registering as incomes. In case fiscally deductible adjustments are made up, their influence consists in decreasing the result of the financial exercise with the adjustment’s value; consequently, fiscal obligations towards the State are diminished. When diminishing or annulling value adjustment through its registering as incomes, an increase of the exercise’s result occurs; nevertheless, the financial effect of the postponed profit taxes is more than benefic for the economic entity due to the fact that during this whole period a temporary self-financing has been made through retaining certain sums whose chargeability is postponed at the disposal of the economic entity;

- **Fiscally non-deductible adjustments** that require the registering of the expenditures afferent to their foundation within the category of non-deductible expenditures when calculating the result of the financial exercise; such circumstances are apparently less satisfactory due to the fact that the company should pay supplemental taxes afferent to provisions’ value.

According to the national accounting norms, from a fiscal point of view, adjustments of the depreciation of fixed assets are non-deductible and increase the calculation ground of taxable profit. When depreciation has no target then provisions are totally or partly canceled through the increase of the incomes according to their character. Fiscal law stipulates that these incomes are deducted out of the taxable ground of the fiscal result.

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1 OUG no. 106/04.10.2007 that changes and completes Law no. 571/2003 regarding the Fiscal Code, art. 21, paragraph (4), letter “ș”.
5. Conclusions

Depreciation, according to the International Accounting Standards, represents the size of the positive difference between the accounting value of an asset and its retrievable value, circumstances when the asset is considered to be depreciated. The economic entity is going to acknowledge a depreciation loss that will determine a decrease of the result. In case retrievable value is higher than accounting value, the asset is appreciated from the point of view of its value; this appreciation is not registered by accountancy due to the principle of prudence.

The resuming of a depreciation loss should be acknowledged within the profit and loss account. Within the profit an loss account the expenditures regarding the adjustment of the value of tangible assets increase, accordingly diminishing the gross result of the exercise, the profit taxes in case of fiscally deductible provisions, and, implicitly, net result.

Depending on the accounting condition of the depreciated asset, the registering of the depreciation loss is done in two manners:

1. Depreciation loss is going to be directly acknowledged in the profit or loss of the period, in case of a non-re-evaluated asset;
2. Depreciation loss should be acknowledged within the Global Result, in case of a re-evaluated asset:
   - Through diminishing the surplus resulted after re-evaluation, in case the depreciation loss does not overpass the surplus resulted after re-evaluating the asset;
   - Through first charging the re-evaluation reserve (after its exhaustion it is acknowledged as an expenditure within the profit or loss of the period), in case the depreciation loss is higher than the re-evaluation surplus.

A depreciation loss is acknowledged, evaluated, and registered by accountancy in the profit and loss account or within the capital accounts according to certain estimations. No matter what change of the initial parameters in view within the estimation has as effect the influencing of the net financial result of the current period or the reserves’ change.

As regards amortization, the separation of accountancy from fiscality represents an important step in eliminating fiscality out of accountancy. The introduction of fiscal norms in accountancy would determine the pollution of accountancy by fiscal norms.

Generally, fiscal delimitation represents the reason of the attraction of registering adjustments by economic entities; yet, it should not become a decisive criterion as the carrying out of the goal of accurate image accountancy should prove requires the observation of all accounting principles and, consequently, the registering of value losses suffered by assets, no matter whether they are deductible or not. Accordingly, when drawing out yearly financial reports, one should first give priority to accounting rules while when determining taxable (fiscal) result, one should notice fiscal rules.
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