

# ACCOUNTING TREATMENTS APPLICABLE TO FIXED ASSETS WITHIN NONPROFIT ENTITIES

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## **Abstract**

*A major category of entities present in the Romanian economy is represented by nonprofit entities or institutions without lucrative purpose, which in accordance with legal provisions are required to organize and lead the accounting transactions in accordance with regulations issued by the competent authorities. The meaning Romanian accounting regulations under legal persons without patrimonial purpose include: associations, foundations or other such organizations, political parties, employers, trade unions, religious denominations, and other legal entities established under special laws, in order carrying out activities without patrimonial purpose. To ensure, on the part of regulatory compliance, and secondly to ensure adequate reflections in the annual non-profit entities financial situations, property assets are subject to accounting treatments specifically governed by Romanian law.*

**Key words:** *fixed assets, nonprofit entities, accounting treatments*

**JEL Classification:** *M40*

## **1. Basic evaluation rules of assets detained**

The balance structure of non-profit entities, immobilized assets may occupy significant weights, reason for the accounting treatment they should be in full agreement with regulatory rules.

**Assets detained** are active generators of future economic benefits and held on a period of more than a year. They must be evaluated at purchase cost or the cost of production, taking into consideration of issues on which they will insist below.

By next economic benefits, in the meaning of Romanian rules, it is understood the potential of a actively to help, directly or indirectly, the flow of treasury or the equivalent of the treasury entity. Potential may be one productive, as part of the activities of operating entity.

Assets detained are subject to depreciation process. Depreciation value assets with life confined to use economic carried out systematically, reducing the book value to them. The book value of these assets is value which is presented in the balance sheet, being represented by acquisition costs, the cost of production or other securities to replace cost, diminished with cumulative depreciation until that date, and with accumulated losses of depression.

The detentions financial held by an entity of the nature bears without end, when it finds loss of value for them, it is necessary to make adjustments for the loss of value, so that they be assessed the smallest amount attributed their balance sheet to date.

Also in fixed assets evaluation must be taken into account the fact that they must be subject to adjustments value, whether the terms of their economic use are limited or no, so that they should be valued at less than the value of the date atribuibila balance sheet, if it is estimated that reducing the value is their permanent.

Value adjustments to the reference is recorded in previous outturn account for the year and are presented in separate notes, if they were not presented separately in outturn account for the year.

## **2. Intangible assets**

Intangible assets are identifiable assets, non-monetary, without support and material held for use in activities of legal person without a purpose bears or for administrative purposes.

In accordance with accounting principles, an intangible asset must be recognized in balance if it is estimated that will generate economic benefits for asset may cost entity and be assessed in a credible manner.

In the fixed assets intangible on **activities without purpose bears**, include:

- the cost of lodging;
- expenditure for development;
- the concessions, patents and licences, trademarks, rights and assets similar, except those created domestic entity;

- other intangible assets; and
- imprests and intangible assets in progress.

Within the fixed assets intangible on economic activities, there are to be included the intangible assets of businesses, the tangible nature of the cover-up and goodwill are comprised.

**Formation expenses** are expenses related to the establishment or development of the legal person without patrimonial purpose (registration fees and other expenses, costs of bond issuance and sale of advertising costs and other expenses of this nature, relating to the creation and expansion of the entity ).

Formation expenses may be included in "Assets", in which case the entity may immobilize formation expenses. In this situation, formation expenses must be amortized within a period not exceeding five years.

If the formation expenses have not been fully depreciated, there is no distribution of surplus or profit, unless the amount of reserves available for distribution and the surplus or profits brought forward is at least equal to that of expenditure outstanding.

Property **development expenditure** by nature are generated by the application of research findings or other knowledge, the purpose of new or improved products or services substantially, before fixing the number or use. The category of such property, enter expenses related to:

- the design, construction and testing of intermediate output or intermediate use of prototypes and models;
- designing tools and dies involving new technology;
- the design, construction and operation of pilot plants is not economically feasible for large scale production;
- the design, construction and testing of an alternative choice for appliances, products, processes, systems or new or improved services.

Expenditure on development activities without patrimonial purpose shall be amortized over a period not exceeding five years, with the approval of the entity manager.

The cost of development of economic activities shall be amortized over the contract period or during use, as appropriate. If the contract period or duration of use exceeding five years, it must be presented in the notes, together with the reasons which led it.

**Concessions, patents, licenses, trademarks**, rights and similar assets representing intake, purchased or acquired by other means, shall be recorded in the accounts of the intangible value of contribution or acquisition cost, as appropriate. In this case the amount of contribution shall be treated as fair value.

Concessions received are reflected as intangible assets when the concession contract establishes a term and a value determined for the concession. Amortization of concession to be recorded during its use, established according to the contract. If the contract provides for paying rent and not the depreciated value, the accounting entity receiving the grant, representing the rent expense is reflected, without recognition of intangible assets.

Patents, licenses, trademarks, similar rights and assets purchased or acquired by other means shall be amortized over the period provided for use by legal persons without patrimonial purpose in their possession.

Goodwill when recognized, is the difference between acquisition cost and value on trade date, the share of net assets acquired legal entity without lucrative purpose for economic activities.

If the goodwill is treated as an asset - as a result the acquisition of shares by an entity other entity - is necessary to consider the following aspects:

- goodwill is amortized, usually within a period not exceeding five years;
- however, entities may amortize goodwill systematically over a period of over five years, provided that this period does not exceed the economic use of assets and still be justified in the notes.

In the category of other intangible assets, advances and intangible assets in progress are recorded, advances to suppliers of intangible assets, software programmes created by an entity or purchased from the third parties, for the needs of use, as well as intangible assets.

Software developed, purchased or acquired by other means shall be amortized according to the probable duration of use, which may not exceed a period of five years, with the approval of the entity manager.

Intangible assets in progress are unfinished intangible assets by the end of the period, valued at production cost or acquisition cost, as appropriate.

Intangible assets are initially recorded at cost of acquisition or production. An intangible item reported as expenditure in a period not later be recognized as part of the cost of an intangible asset.

Subsequent expenditure incurred by an intangible asset after its purchase or completion is recorded in the accounts of expenses when incurred. These costs will further increase the cost of the intangible asset when it is probable that this expenditure will enable the asset to generate future economic benefits than originally anticipated performance and can be measured reliably.

Intangible assets should be presented in the balance sheet entry value, less the cumulative value adjustments.

### **3. Tangible assets**

Tangible assets are held for use in activities without patrimonial purpose of the legal person or to be used for administrative purposes and are used for a period exceeding one year.

Tangible assets on activities without patrimonial purpose include: land and buildings, plant and machinery, other plants, machineries and furniture; tangible assets and advances in progress.

Accounting for land take on two categories: land and land arrangements. The analytical accounts, land can be shown on the following groups: agricultural land, forest land, land without buildings, land deposits, buildings land and others.

In the fixed assets are shown separately the tangible assets in progress.

Regarding the initial assessment of tangible assets should be noted that tangible assets should be recognized as an asset initially measured at cost or determined under the rules of assessment, depending on how to input into the establishment.

Costs incurred relating to a tangible subsequently be recognized, usually as an expense in the period in which they were made.

As regards the expenditure incurred in connection with tangible assets used under a lease, location management and other similar contracts, which is highlighted in accounting entity has made in tangible assets or as expenses in the period in which was performed according to the economic benefits associated with similar costs incurred in connection with their tangible assets.

Also the cost of repairs made to the tangible, to ensure their continued use should be recognized as an expense in the period is performed.

Tangible progress is being made unfinished investment contract or direct labor. They are valued at production cost or acquisition cost, as appropriate.

Tangible progress is passing into the category of property completed after the reception, putting into use or operation of them, as appropriate.

The cost of tangible fixed assets constructed for its own is determined using the same principles as for an acquired asset.

Thus, if the entity produces similar active in commercial, under normal transactions, then the cost of the asset is usually the same as the cost of construction of that asset to be sold. Therefore, any internal profits are eliminated in calculating the cost of that asset. Similarly, the expense being scrap, labor and other resources beyond the limits accepted as normal, and the losses that occurred during construction of its own activities are not included in the cost of the asset.

Tangible balance sheet must be submitted input value, less the cumulative value adjustments.

Property and equipment are subject to amortization process. Depreciation shall be determined by applying the value of depreciation allowances for tangible input.

Depreciation of tangible assets is calculated using an amortization plan, the date of their service until full recovery of their input as economic use of terms and conditions of use.

They subject also make investments in tangible depreciation taken in rent during the lease and the lease expires, the corresponding depreciation of investments made and the owner is leasing the restraint. Depending on the terms contained in the lease, the transfer may be a sale of assets or other means of disposal.

Legal persons without patrimonial purpose depreciated tangible activities without patrimonial purpose of using the system of depreciation, amortization linear.

Tangible on economic activities, according to the law, legal persons without patrimonial purpose shall be amortized in accordance with regulations applicable to businesses.

Depreciation of fixed assets related to the accounting records as an expense. It should be noted that land is not depreciated.

Investments made in spatial lakes, swamps, ponds, land and other similar works is recovered via depreciation, the inclusion in operating expenses over a period determined by the board or person responsible for management heritage.

The failure or cassation tangible records are removed when no future economic benefit is not expected from its subsequent use.

Gains or losses resulting from disposal of tangible cassation or cessation of a tangible asset can be determined as the difference between revenue generated by the removal of records and the amount outstanding, including the costs of this and be presented as income or expense, as appropriate, in profit or loss account.

### **4. Financial assets**

Financial assets include shares held by a nonprofit entity to related entities, loans to affiliates, participation interests, lending legal person entities without lucrative purpose is linked by virtue of participation interests and other investments held as fixed assets, other loans .

In the accounts receivable representing amounts recorded loans to third parties under contracts for the entity charged interest under the law.

The other loan guarantees to cover deposits and securities by the entity to third parties.

Entities outlined in account receivables and other receivables fixed maturity greater than one year are required to submit its balance sheet, the financial fixed assets, but the maturity of more than 12 months, the difference will be reflected in claims.

Financial assets recognized as an asset shall be valued at cost or value determined by obtaining their agreement.

Financial assets shown in the balance sheet entry value less cumulative adjustments for loss of value.

## **5. Conclusions**

True reflection of the heritage-profit entities in accounting entails the application of accounting treatments in accordance with national legal regulations. An important part of balance sheet structure of this class of entities is the fixed assets and their treatment adequate to reflect in their accounts and annual financial statements is a requirement for their managers.

Ensuring regulatory compliance requires first insight into norms on accounting treatment applicable assets, and on the other hand their application appropriate to ensure fair and accurate reflection of these categories in the annual economic elements.

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