

## CONCEPTUAL DELIMITATION OF FIXED ASSETS PROCUREMENT IN PROJECTS WITH GRANT FUNDING

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### Abstract:

*In recent months, the notion of economic crisis is a "fashionable" one, and it affects also the access of Structural funds. It can be noted that nationally a series of measures have been taken to reduce the time of the selection process of projects so as the period from writing the project until implementation it to be as short as possible. Let this be a strategy to hasten the absorption of funds allocated to Romania for this year?*

*Due to the economic crisis through which we pass, at the level of European Union certain measures are taken in order to combat it, one being that the grant funds will be mainly awarded to projects that promote sustainable development of the implementation zone (infrastructure, productive activities, creative jobs, etc.) projects, in which, fixed assets must be purchased.*

*In present paper we will stop over some terminology issues (national vision, continental, British and American), related to fixed assets (tangible and intangible valuations), because as it occurred in literature, but also among practitioners, a series of discussions on this assets category. These discussions are caused by lack of communication on the existing organizations involved in the process of accounting harmonization, imposed by the globalisation of economies, especially of financial markets. Harmonization or the convergence of accounting is considered an irreversible process, as determined by the need for comparability of financial statements.*

**Keywords:** grants, fixed assets, tangible, intangible valuation, depreciation, accounting

**JEL Classification:** M41

## INTRODUCTION

To exist, and especially to work of developing an economic entity it needs money for material goods or purchased services, after which it will gain certain benefits, which can be obtained either in the current period or future periods. If benefits are obtained in the current period, the value of goods and services consumed becomes expense during the same period. If benefits are expected in future periods, then the goods and services will be considered fixed assets in the current period and the payments made to purchase will be capitalized.

Due to the economic crisis through which we pass, at the level of European Union certain measures are taken in order to combat it, one being that the grant funds will be mainly awarded to projects that promote sustainable development of the implementation zone (infrastructure, productive activities, creative jobs, etc.) projects, in which, fixed assets must be purchased.

## 1. THE DEFINITION OF FIXED ASSETS

The definition of *fixed assets*, met in IAS 16 "*Tangible*", IAS 17 "*Leases*", IAS 38 "*Fixed assets*", IAS 40 "*Property investments*", is as follows: fixed assets are the controlled resources by the enterprise and meet several conditions:

- a) have a duration of more than 1 year;
- b) are used in the operation of institution exploiting, given with a rent (including leases) to third parties for use and also for financial investments on long term (equity investments of other financial companies, including claims relating to such investments);
- c) are acquired or manufactured to be used in the company (including for rental or for capital growth) and are not for sale.

*Intangible assets*, known as intangible fixed assets or intangible assets include all the economic value of investment that do not take the physical form of tangible assets.

According to Ministry of Finance Order no. 1752 from 2005, an *intangible asset* is an identifiable, non-monetary asset, with no material support and held for use in the supplying production of goods or services in order to be rented to third parties or for administrative purposes. *Intangible assets* are assets without physical form, represented mainly by concessions, patents, licenses, computer software, costs of research - development etc. All these are an important economic potential, through which enterprise business develops and diversifies. Intangible assets are subject to amortization, durations ranging from one intangible element to another. Considering the heterogeneity of intangible fixed assets, as well as some features that intervene in the financial behavior of each of component element, it was necessary to ensure accounting for each of the separate components.

*International Accounting Standard IAS 38 “Intangible assets”, which is the accounting treatment of intangible items, defines intangible assets as a non-monetary asset identifiable without material support and held for use in the production or goods supplying, services providing for rental or administrative purposes.*

38 *International Accounting Standard* requires two preconditions in order to account intangible assets: probability that the entity to obtain future economic benefits from the use of restraint intangible, probability assets for the entity to obtain future economic benefits from using intangible restraints, and opportunity to evaluate on a credible manner the cost of a intangible restraint.

In *British accounting* provisions on intangible assets are found in the following rules:

- SSAP (Statement of Standard Accounting Practice) 13 (accounting for costs of research - development);
- SSAP 22 (accounting for goodwill and differences in acquisition);
- SSAP 12 (accounting for depreciation).

Basic features in England accounting are: simplicity and professional judgment freedom, this being built on the Anglo-Saxon accounting school. Within the intangible (Intangible fixed assets), according to British standards are included: the costs of development (Development costs), concessions, patents, licenses, trademarks and other similar rights and assets (Concessions, patents, licenses, trade - marks and similar rights and assets), goodwill and flow accounts.

Specialists in this field have noted the absence of a general rule regarding intangible assets, therefore the draft rule FRED (Financial Reporting Exposure Draft) 52 “Intangible Values Accounting” is aimed to remedy this issue, as will later be applied to standard FRS (Financial Reporting Standards) 10, which will resolve problems connected to this type of fixed assets, defining *intangible assets as active ones, designed for a sustainable use within the society activities of non-monetary nature and without physical substance*.

To be recognized as intangible assets, an asset must meet the following three conditions: the historical cost is known with precision, the nature of goodwill and other assets is clearly distinct; an independent cost can be determined independently of the goodwill and other assets and also from the profitability of a sector or the society as a whole.

In *American accounting*, there are rules regarding the intangible assets, the most popular being APB (Accounting research bulletins) 17 which issued in 1970, being applied until 1995 when the rule FAS will be issued (Financial Accounting Standard) 121, this one based on at least two structures that affect the accounting and classification in terms of their start (identified or unidentified) and in terms of the entry mode (enterprise development or acquired business). The intangible category may include: patents, trademarks, concessions (identified), goodwill, and differences from acquisition (unidentified).

As regarding the capitalization of fixed assets, we can notice that the acquired intangible assets may be capitalized whether identified or unid entified, whereas those developed by the same enterprise are not recorded in the profit and loss account and only sometimes the identified ones can

be capitalized. As regards depreciation linear method is preferred on this issue we will be back in the next chapter.

**Tangible assets**, known as material or tangible fixed assets are material tangible property to use on long in an enterprise.

Accordingly to OMF 1752/2005, a tangible asset is an active owned by an entity to be used in the production of goods or services, to be rented to third parties, or be used for administrative purposes, being used for a period of more than one year.

They are in the form of land and fixed assets (buildings and constructions, hard machinery and energy equipment, machinery, equipment and facilities, equipment and installations for measuring, control and regulation, transport, animal work, plantings, production tools and inventory household accessories). When the purchased or made material assets are not completed, they are included in the fixed or ongoing investments in progress.

*International Accounting Standard IAS 16 “Tangible assets”*, the one which describes the accounting treatment applicable to tangible assets, defines them as those assets which:

- are held by an enterprise for use in goods production or services, to be rented to third parties, or to be used for administrative purposes;
- it is possible to use them several times.

The generic term for tangible assets (also known as tangible assets) is used generally to identify those assets generally used especially in productive activity from which the company will benefit over a period of more than one year. The term “body” or “tangible” is distinguished from intangible assets which are assets without physical substance, or whose value can not be completely specified by their physical existence.

As regarding the exceptions and situations where this standard is not applicable, we can remember existing approaches within the standard IAS 17 “Leases”, which provides that the tangible assets recognition that are lease taken is to be made based on the principle of risks transfer and benefits of the user. Leasing contracts have become an extremely sought method for assets acquisition (mainly fixed assets), even in grant funding projects the budgets have an item designed for expenditure categories, generally eligible, because they allow the beneficiary to use throughout entire project lifetime without obliging him to fully pay (financial leasing) or to take risks (operational leasing). IAS 17 requires the accounting treatments applicable to all leasing contracts classifying them as:

- *financial leasing contracts*, through which risks and benefits within the property goods are mainly transferred; title of ownership can be finally transferred or not;
- *operational leasing contracts* are outside the first category, the asset being shown in the tenant's accounts, which he amortized throughout the entire useful life accordingly to the specific principles and the tenant as recording periodically the costs for lease payments/lease rates.

A new generation of leasing contracts are the “leaseback” by which the owner of the property sells it while it leases it from a third party. Therefore, this contract type, has two reference points: the sale of property to a third party (ownership transfer) and rental property to former owner. This last stage may take the form of financial or operational leasing.

Another exception is found in the case of a real estate investment, where an enterprise applies *IAS 40 “Investment property”* upon completion of built or developed properties for use as future real estate investments. **Property investments** are defined as those real estate (land or buildings - or parts of buildings - or both) held by the owner (or the tenant under a contract of lease) to rent or to benefit from the growth of their value and not to be used in the goods production, services or for administrative purposes or to be sold during the normal conduct of business.

According to **British approach**, in case of tangible assets (Tangible fixed assets), should be emphasized that the property criterion is not retained to define them, those encompassing goods owned (used) by company (tenant) within the location contracts – financing, from this category are: land and buildings, plant and machinery, installations, equipment and furniture and payments on account and assets in course of construction.

In *American accounting*, there is no specific rule for keeping account for this category of assets notions on tangible assets are met in several texts. Analyzing these texts we can see the different conception from the concept of heritage property, whether in the French system the heritage concept is based on legal ownership of goods in the American system is based on the concept of economic control, which leads to the fact that goods entered by contact location – financing to appear in fixed asset.

## 2. EVALUATION OF FIXED ASSETS

Next we will underline two very important aspects, namely, *evaluation* and *depreciation* of fixed assets.

In *continental vision* on assessment is deemed that restraint in order to be recognized firstly must be evaluated. The entrance of tangible assets in an enterprise can be done through many ways: classic acquisition, own production, leasing contracts, subsidies, trades with other assets, share capital or donation. The most common way of entering of tangible assets is the **acquisition** in this case the cost is the amount by which the asset that will be recorded in accounting (IAS 16 “an element of tangible assets which is recognized as asset must be measured initially at its cost”). On which concerns the intangible assets some discussion may take place, it should be evaluated at cost, which is done as it follows:

- the intangible assets if it is purchased separately, its cost is the purchase price plus direct associated costs (with interest costs may be capitalized according to IAS 32 - *Cost indebtedness*);
- if an asset is freely received through a government subsidy, it will be valued at fair value or nominal value (according to IAS 20 - *Accounting government subsidies*) to which it is added any expenditure that is directly attributable to the asset for its use;
- if an asset is acquired through a combination of enterprises, it is assessed at fair value at the date of acquisition under IFRS 3 - *Combining enterprises*;
- if an intangible asset is acquired in exchange for other different intangible assets, the asset is assessed at fair value, which is equivalent to the fair value of assigned asset, adjusted by any amount of money transferred.

In order to specify whether a generated intangible asset by their own resources meets the criteria for recognition, a company must separate the generation asset process into two phases: the phase of research and the phase of development.

In *British approach*, important provisions on intangible assets and not only are found in Firms Law (CA 85) which retains the historical cost as the main assessment method.

In fixed assets case is forfeited:

$$\text{The amount of input restraint} - \text{Depreciation (Provision for depreciation)} - \text{Provision for depreciation (Provision for diminution in value)} = \text{Net book value (Net book value)}$$

Tangible assets are booked as a general rule at historical cost, but the British companies can quantify them at their real value, usually only lands are registered at their fair value because constructions must be redeemed at their book value. On what concerns the lands and buildings a distinction is made between “freehold” property and “leasehold property”. The first construction category (made on land owned) is amortized over the lifetime of 40 -50 years.

For other tangible assets (machinery, equipment, technical equipment, means of transport), the depreciation calculated on the basis of economic life applied to the difference between cost and the residual value, most common method depreciation method is the linear method, on this issue we will be back in the next chapter.

*Costs of establishment* occur very rarely as an item in British stock companies, which are included in the profit and loss account when they appear as costs of establishment, or to charge over the premiums on issuing, in case of expenditure growth of capital. Under the Firms Law, such expenditure must be listed in the expenses charged to the first year or the premiums of issuing,

unlike the French system adopted by Romania, where under the IV<sup>th</sup> Directive, the establishment expenses are amortized.

Within the intangible assets is a separate “*Development expenditure*” item which under SSAP 13, are not necessarily included in the profit and loss account. Such expenses may be capitalized only if are related to a project clearly defined, are identifiable, income project is estimated with reasonable reliability and revenue estimated size is greater than the total development costs engaged or to be engaged in connection with this project.

As regarding intangible assets assessment in the *American vision*, the basic rule is that fixed assets are valued at acquisition cost. Price return (production cost) of intangible assets developed by the company or expenses incurred in order to maintain them must be estimated based on the income they generate. The methods used for determining the cost are: purchase price, fair value, the actual value of the expenditure incurred for the purchase of intangible assets and the fair value of the goods offered in exchange for the assets received.

Fixed assets should be reported at historical cost which is the amount of money (or cash equivalent) paid for their acquisition. This value is then adjusted by depreciation. Under U.S. GAAP, the cost of a fixed asset (less any residual value) is the cushion during the estimated economic life so as to obtain an allocation of this close to the rate at which benefits are obtained resulted from the use of that asset. A modification of the depreciation method for a class of identifiable assets represents a change of an accounting principle and requires an adjustment for the cumulative effect of change in the respective results.

Some aspects should be underlined concerning the tangible assets, namely that all expenditure incurred during the entry, put into service of restraint or incorporated into its cost, and its evaluation is at historical cost. The cost of demolition and arranging the purchased land for execution of constructions, are part of the cost of land, land not being subject to depreciation.

Intangible assets acquired must be recorded at purchase cost, whether they are acquired independently, as part of a group of assets or as part of a purchased company. Their cost is estimated at the size of the amount of money paid or at the amounts up to date to be paid in exchange for buying those assets. The cost of non-identifiable intangible assets is evaluated as the difference between the cost of all identifiable assets (tangible and intangible), less assumed liabilities.

Goodwill is recorded only when it is purchased as part of a group of assets and is represented by the cost of non-identifiable assets acquired. If a purchase results in the appearance of negative goodwill, it must reduce proportionally the value of acquired assets (including identifiable intangible assets value). The general costs of producing a software system designed for sale must be registered as expenses, until the technological feasibility of the program is established. Subsequent costs of establishing technological feasibility should be capitalized until the moment product is available to be sold. Until the 1<sup>st</sup> of January 2002, the acquired goodwill and the identifiable intangible assets were capitalized and amortized over the useful lifetime. Under FAS 142, intangible assets that have finite lifetime are amortized during the useful lifetime. The goodwill and identifiable intangible assets that do not have a finite lifetime are not amortized but are annually tested for impairment.

### 3. THE DEPRECIATION OF FIXED ASSETS

As regarding depreciation, international standard IAS 16 “*Tangible assets*” argues that depreciation is a method of passing on the costs of initial purchase cost of fixed assets, over their useful lifetime. It is neither a mean of adjusting the asset value to fair market value nor a mean of providing funds to replace assets subject to depreciation.

There are different methods in accounting practices to liquidate an asset of tangible nature. The standard regulates that: the depreciation method used should reflect how the economic benefits brought by these assets are consumed by enterprise and that the depreciation value for each period

should be recognized as an expense (depreciation expense), unless it is included the value of another asset.

The method of depreciation applied to tangible assets should be periodically reviewed and if changes in the expected rate of economic benefits arise from these assets, the method should be amended to reflect the rhythm changes. Where such a change in depreciation method is necessary, this must be accounted for as a change in accounting estimate and the depreciation expenses on the year and future years must be adjusted.

Economic agents amortized intangible assets using the following schemes in Standard depreciation: straight-line method, sum total years of useful lifetime method, digressive method.

In the *British approach*, depreciation finds the loss accounting value suffered by assets as a result of depreciation over time by lowering the level of economic benefits expected to be obtained from use, proceeding to correction of the value of the assets in order to restore them to a value closer to reality. As the basis for depreciation is considered the cost from which is deducted the residual value, but according to regulations on this matter, tangible assets can be accounted in the balance sheet at a higher value than historical cost, and that without tax incidence.

In British accounting are found alternative treatments or *current cost accounting*, based on what the company can choose between two methods: you can use the market price valorising for each asset at the end of the year, or if not possible you can appeal to current price.

Most British companies assess the tangible assets at their historical cost. Exceptions are a big part of large enterprises, which from time to time, have to revalue the asset using the market value. Especially land and buildings are subject to periodic revaluations. Also an annual revaluation of some tangible assets can be done, or a revaluation of all tangible assets, based on replacement costs.

Generally, the British companies reassess, usually land, but not the buildings and technical installations (because they must amortize them based on the amount of their accounts value). For fixed assets outlined in market value, subsequent amortization will be calculated based on the new assessed values and of the economic lifetime remaining.

In addition, although in accounting practice is considered at the level of principle that a restraint can not be charged at an amount above fair value, in the United Kingdom, no inventory is performed annually for this category of assets. Therefore, a British company can keep a restraint on asset at a value higher than fair value, even if it devalues over the year, under the condition that such impairment is temporary.

As methods of depreciation that can be used we can remember: linear method (straight method), digressive method with fixed quota (reducing balance method); proportional damping to the numerical order of reverse years (SYDM) and method of production units (unit of production method). The depreciation method used in UK practice is the straight method.

According to *American approach* accounting rules do not have specifically a text devoted only to tangible assets, treatment of those structures involves the usage of the following regulations: ARB 43 - Depreciation and inflation; APB 6 - Depreciation and revaluation of assets (digressive depreciation method) APB 12 - Explanatory notes and annexes regarding asset depreciation and corresponding depreciations FAS 121 - Impairment of long-term assets, FAS 66 - Sale of fixed assets.

Northern American accounting practice respects the principle of historical cost, so that both in the United States and Canada the value of fixed assets is not likely to be subject of review in most cases. *The basic rule of assessing the assets is historical cost rule*; however ARB 43 states that in the past, restraints could be subject to *reassessments* or *revaluations* and in these circumstances the depreciation base is given to the depreciation of value and not to the historical cost.

For the Americans Donald E Kieso, Terry D Warfield, depreciation is not a problem of evaluation, but a way of allocating the cost, which is defined as the *process of allocating on expenses of tangible assets costs in a systematic and rational manner over those periods in which benefits are expected from the use of that asset*. From the cost of assets, in order to account the depreciation the residual value is deducted (salvage value) in order to sharing systematically the

depreciation expenses over the useful lifetime. No principle set the lifetime of the intangible assets as long as this policy is the result of repairs and maintenance carried out by each company.

Although there are several methods accepted for depreciation, methods such as straight method, unit of production method, SOFTY method, the most common method is still the straight method. The difference between the accounting depreciation and that recognized by financial point of view which uses shorter lifetime periods for intangible, neglecting the residual value in calculating of depreciation methods and prefer the digressive methods. American literature recognizes that inflation is a complex of phenomenon that motivates the choice of a method of accelerated depreciation companies being clearly tempted that by increasing depreciation expenses to reduce profits and to avoid such lack of capitalize phenomenon.

FASB states clearly that, for accounting evidence, a society should not make reference to the envisaged financial rules; if amortize tax differ from those accounts, adjustments are required to be made under the tax retreating form.

The two methods of tax depreciation introduced by the Congress - ACRS (Accelerated Cost Recovery System) in 1981 modified in 1986 by MACRS (Modified Accelerated Cost Recovery System) stimulate enterprises to invest in new fixed assets in, enabling them to quickly recover the cost of these assets using the following correctives: to renounce the concepts of duration of use and estimated residual value by replacing with the calculation of a provision for cost recovery based on the adjusted cost of asset for a period fixed by law for all types of assets.

For the calculation of depreciation five methods may be used, namely straight method, method of production and regressive methods (with fixed rates, method of decreasing quotas, constant quota method (fixed rate applies to the remainder value)).

As a result of a study done by the American Institute of Certified Public Accountants, Accounting Trends & Techniques, where they interviewed 600 large U.S. companies on the depreciation method used, they could conclude that the most used method is the straight one, followed at a great distance by the digressive method with fixed rates, the production method, the constant rates method, and on the last place is the method of decreasing rates. By changing the federal tax law, many U.S. companies have begun to choose more regressive methods.

Instead of conclusion regarding the similarities and differences between the American and continental provisions, we use an example to calculate the depreciation: *The Alfa Company has a fixed cost of acquisition of 30.000 u.m., accumulated depreciation is 5.000 u.m. The present value of fixed asset is 60.000 u.m.* Under the U.S. GAAP, revaluation of assets is prohibited and shall remain recorded in the financial statements at net book value of 25.000 u.m. In IFRS, if the base treatment is applied the resolution is identical, and if the alternative treatment is applied, the asset may be recorded in the balance sheet at reassessed amount.

As regarding the depreciation, there are two methods: the proportional increase of this or the initial annual depreciation.

### A. Proportional depreciation increasing method

The value of gross assets:  $30.000 \times 2,4 = 72.000$

Depreciation:  $5.000 \times 2,4 = 12.000$

Net accounting value = 60.000

The Coefficient of 2,4 was calculated as follows:  $60.000 / 25.000 = 2,4$ .

Revaluation generates the following accounting entry:

Fixed Assets	42.000	(72.000 – 30.000)
Depreciation	7.000	(12.000 – 5.000)
Revaluation differences	35.000	

### B. Method of cancellation initial depreciation

Applying this method generates the following accounting entries:

Accumulated depreciation	5.000
Fixed Assets	5.000
Fixed Assets	35.000

Revaluation differences

35.000

#### 4. THE ACCOUNTING RECORDS FOR EXTERNAL GRANT FUNDS

Because this work has as starting point, the acquisition of fixed assets in the grant projects, I consider appropriate to present the accounting records for external grant funds:

- *Evidencing the value of the received loan subsidy grant for investment:*

$$4452 = 132$$

“grants loans with grants subsidy”

“grants loans with grants for investments”

- *Receiving the subsidy in the current account :*

$$5121 = 4452$$

“bank accounts in lei”

“grants loans with grants”

- *Reception equipment suppliers (supplier invoice):*

% = 404

231

“suppliers of fixed assets”

“property assets in progress”

4426

“deductible VAT”

- *Invoice payment:*

$$404 = 5121$$

“suppliers of fixed assets”

„bank accounts in lei”

- *Due value for assembly equipment:*

$$2132 = 722$$

“equipments and installations for measuring, control and regulation”

“revenues from the production of tangible assets”

- *Putting into service:*

$$212 = 231$$

„constructions”

“tangible assets in progress”

- *Refund unused subsidy:*

$$132 = 5121$$

“grants loans with grants for investments”

„bank accounts in lei”

- *Depreciation of investment in  $N$  year of use:*

$$6811 = 2813$$

“operating expenses for depreciation on fixed assets”

“depreciation of installations, vehicles, animals and plantations”

- Concurrently, there is a transfer rate of the subsidy for the year  $N$  attached to the investment income:

$$132 = 7584$$

“grants loans with grants for investments”

“incomes from investment grants”

Repayment of received grants, when they do not have fulfilled the requirements for funding under IAS 20 and the Ministry of Public Finance Order no. 1752/2005.



A situation may occur when an entity is forced to repay a grant from the infringement of obligations for which it was granted. In this case an accounting estimation is done in order to modify only the results of the current financial year and future years.

- *Reimbursement the received grant:*

	%	=	5121
472			„bank accounts in lei”
“revenue recorded in advance”			
6582			
“grants and donations”			

- *Evidence of loan subsidy grant received for direct investment in the bank account in lei:*

5121	=	132
„bank accounts in lei”		“grants loans with grants for investments”

In the Structural Funds case should be noted that transfer of funds will be made only after the expenses were done from own funds, on the basis of documents certifying these expenses (only for the proportion considered to be eligible), so that passage of loans to grants subsidies in the 5121 “bank accounts in lei” will record during remitting amounts to the Payment Authority within the Ministry of Finance.

It should also be noted that if the accounts of projects financed by European funds have performed analysis for each account that keeps track of an item patrimony (an economic good) purchased under the project. For example, for property acquired by ERDF (European Regional Development Fund) through SOP HRD (Human Resources Development Sectoral Operational Program) will create the following analysis:

- 208. POS HRD “Other intangible assets” is used to record other acquired intangible assets (for example, licensed operating system, antivirus license, License Office, server operating system license, license antivirus server);
- 2131. POS HRD “Equipment (machinery and equipment work)” is used to account for all technological equipment purchased for the project implementation (for example, servers, laptops);
- 214. POS HRD “Furniture, office equipment and other property” is used to track office automation equipment purchased under the project (for example, printer, multifunctional switches , rack);
- 2808. POS HRD “Amortization of other intangible assets” is used to record the amortization of other intangible assets (for example software licenses) acquired under the project;
- 2813. POS HRD “Depreciation of technological equipment, vehicles, animals and plantations” is used to record depreciation of equipment (for example servers, laptops) purchased under the project;
- 2814. POS HRD “Depreciation of other tangible assets” is used to record depreciation of other tangible assets (for example printer, multifunctional switches, rack) purchased under the project;

## CONCLUSION

Instead of conclusions, I consider it appropriate to present comparative regulation between continental and American provisions on assets, while stressing the need to harmonize the provisions thereof.

Generally, both in continental regulations (IAS 38) and the American regulations (U.S. GAAP) the recognition of intangible assets created internally is barely allowed. In the case of

software, GAAP requires the demonstration of technological feasibility, aiming to capitalize further costs, and IFRS distinguishes between research phase and development phase, capitalization being allowed only for the cost of the second phase.

Both U.S. GAAP and basic treatment provided in IAS 38 (intangible assets) and IAS 16 (tangible assets) do not allow the revaluation of fixed assets, while under the alternative treatment, fixed assets may be reassessed if certain criteria are met. Typically, these criteria can be met very rarely. Thus, U.S. GAAP requires that land and fixed assets to be valued at depreciated historical cost, taking account of possible depreciation. Basic treatment of IAS 16 is identical, but the application of IAS allows an alternative treatment in accordance with the land and fixed assets may be reassessed.

Along with IAS 38 and U.S. standard SOP 98-5, the capitalization costs of establishment can be done only in certain circumstances. Depreciation of intangible assets is identical in both referential, meaning that only amortization intangible assets which have a finite lifetime are amortized. Both intangible assets which have a finite lifetime and those that have an indefinite life are subject to annual impairment test. Another difference relates to the costs of repairs of capital assets that can be capitalized under IFRS, but which must be reported as expenses under U.S. GAAP. The various components of a different active lifetime can be depreciated separately under IFRS (with durations and different methods of depreciation), whereas under U.S. GAAP this possibility is not allowed.

We conducted this review because of these differences are problems facing accounting in general, but affects the accounts of various European projects, in which a high share of eligible expenditures related to procurement of ERDF type, that the acquisition of assets.

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