

# Peculiarities of Reevaluation Results Treatment Pertained to Grounds According to Their Destination

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## Abstract

*Regardless the nature of the activity that an entity develops, respectively the multitude of aspects which target developed activity, the aspects referring to economical-financial information are considerable detached. These aspects are the ones which represent the maximum of interest for different categories of users of the information provided by entity.*

*A real report is only realized in the condition of presenting the patrimonial elements at their actual value given by the evaluation instrument, respectively by the one of reevaluation. The fact that among balance sheet items, tangible assets occupy a significant place must be mentioned and within these, the fields owned by the entity, which can be held and purchased for different purposes, are also subjected to the process of reevaluation.*

*The purpose of this scientific approach is to both theoretically and practically present what implications of the owning purpose of a field have on the reserved treatment apparent from an accordingly reevaluation.*

**Key words:** evaluation, reevaluation, reserves from reevaluation

**J.E.L. classification:** M40, M 41

## 1. Introduction

Realities of modern society prove the fact that entities are forced to offer information to different kinds of users, even though a part of the information referring to some carried out activities may be hidden behind confidentiality. These information are used in taking decisions, mentioning the fact that besides the quantity of given information, the quality is essential.

The accounting theory and culture's degree of development, the orientation of accounting regulations, practice specifics, globally, but especially nationally, influence the whole process of measuring, certifying and publishing the economical-financial information. (Matiş, Pop, 2010, p.692).

Concerning the information which is given to users, accounting has the goal of measuring and translating the activities of an entity. (Lande et al., 2002, p.13). For fulfilling this purpose, accounting appeals to the instrument of evaluation, respectively reevaluation. The process of evaluating patrimony elements occupy an important place in accounting practice and theory, being above all, the premise of enlistment in the accounting registers. (Creţoiu, Bucur, 2007).

The process of evaluating the assets is directly involved in elaborating the information regarding the financial position of an entity, which reflects the relationship between the assts, debts and equity, registered in its balance sheet. Also, by modifying the value of some assets during financial exercise, the process of evaluating the assets also affects the other critical components of financial situations. (Stan, Anghel, 2007, p.355)

Among the assets detained by an entity, an important place is occupied by the fields that one owns and which have different destinations. Fields evaluation must be made only by people having the necessary qualification and experience in this domain.

Conceived and structured on a complex problem, this scientific approach aims the presentation of some accounting elements referring to fields' reevaluation, as well as a study case which practically reflects the implications of the purpose of owning the field upon the treatment of reevaluation reserves.

## **2. Methodology**

The methodology I have used for this scientific approach is based on a theoretical research concerning the concepts and regulations in this domain, and on an empirical research through which I have pointed out some peculiar aspects about the approached subject. I have resorted to studying papers in financial accounting elaborated by theoreticians and specialists in this domain, to studying Evaluation Standards, to analyzing regulations in the domain, thus being a qualitative exploratory research, and I have also researched practical aspects which are specific to fields' accounting treatment and reevaluation reserves, related to the fields as a result of reevaluation according to the purpose for which the field is being purchased or owned, thus being a descriptive quantitative paper.

## **3. Considerations concerning fields and their reevaluation**

The economical evaluation, respectively the reevaluation is made for determining an accounting element's market value, thus offering actual information. Concerning revaluation, this means to evaluate again, usually updating a preexisting value. (Todea, 2004, p.112).

The evaluation of an asset has as a starting point the balance sheet, because it reflects the volume of economical assets, of own, foreign and attracted resources, the market, the results of the strategies applied by the entity. (Păvăloaia, Păvăloaia, 2006, p.49). The evaluation is governed by diverse principles. One of these principles regards the purpose which is followed through evaluation. Even if this principle is not determined, it cannot be neglected. There is a certain way to proceed when evaluating some patrimonial elements which are to be assigned, sold and there is another way to proceed when the evaluation is made for the internal needs of an entity. (Todea, 2009, p.116)

An asset element with a significant weight and with diverse destination is represented by the field owned by the entity. Fields are ground surfaces which have different destinations in the deployed activity. (Todea, 2009, p.64).

In current practice, the assessor may be appealed for evaluating the unimproved field (having agricultural destinations, with or without developing destination), for evaluating a field which is constituted as emplacement (thus having appliance), for evaluating the component of a field in a constituted property or for the situation when the owned field is destined for construction having a sales purpose, changing the classification from immovable to stock. (Stan, Anghel, 2007, p.238).

In the case of the fields which were reevaluated and made the object of partial disposal, when deregistering them, the difference from reevaluation associated with the disposed part is considered redundancy realized from reevaluating reserves, corresponding to the accounting value of the fields which are disposed, deregistered and registered in the account 1175 "Reported result being redundancy realized from reevaluation reserves". (OMFP 1802/2014, 114).

It is also worth mentioning that fields and buildings are separable assets and are thus separately accounted, even when being together purchased. An increase of the field's value on which there is a building, doesn't affect the determination of the building's depreciable value. The fields are not depreciable, only in the case when they have an economic destination, being thus obtained by acts of sale-buying, including amends in the case of expropriation (OMFP 1802/2014, 192)

In the case when an asset which was initially recognized at the fields is further used for ensemble dwellings construction destined for sale, the value of the fields is distinctively pointed out in stocks, at the register value in accounting. If the field has been reevaluated, simultaneous with the change of the

asset's nature, its corresponding reevaluation reserve is transferred in the account 1175 "the reported result represents the redundancy realized from reevaluating reserves". (OMFP 1802/2014, 274).

Evaluation Standards determines the following as procedures which must be used when evaluating the fields: direct comparison, extraction, allotment, the field's residual value's technique, ground rent capitalization and development and parceling technique. (GME 630). All these six procedures are derived from the three main value approaches: market approach, cost approach and respectively income approach.

Tangible reevaluation, respectively field reevaluation has imposed a close attention concerning the way in which the reevaluation results had been reflected in financial situations, due to the influences on values which are registered in accounting. The treatment of reevaluation results associated with fields, is established through the regulations in this domain, so that indifferently to which entity the field pertains, the accounting policies referring to the treatment of these results is always the same. As a result, information comparability furnished by entities both in time and space, is ensured.

#### 4. Study case evaluation treatment results associates with fields, according to their destination.

##### Case 1: The field owned by the entity is categorized as tangible asset

Entity S.C. EXAMPLE S.A. owns a field purchased at 427600 lei, categorized as tangible asset. During 5 years when the field is in the entity's property the following operations take place:

1. At the end of the second financial exercise the entity has reevaluated the field, and the fair value was 485300 lei

Accounting value = Purchase cost = 427600 lei

Fair value = 485300 lei

One may observe the fact that fair value (485300 lei) is higher than accounting value (427600 lei), thus it is registered a favorable difference of 57700 lei.

Registering favorable difference:

2111 "Fields"	=	105 "Reevaluation results"	57700
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2. At the end of the third financial exercise, the entity has revaluated the field, and the established fair value was 415100 lei

Accounting value = 485300 lei

Fair value = 415100 lei

One may observe the fact that fair value (415100 lei) is lower than accounting value (485300 lei), thus an unfavorable difference of 70200 lei is being registered.

Registering revaluation depreciation:

%	=	2111 „Fields"	<u>75200</u>
105 „Reevaluation reserves"			57700
655 „Expenses from reevaluating tangible assets"			17500

3. At the end of the third financial exercise, the entity has reevaluated the field, and the established fair value was 459090 lei

Accounting value = 415100 lei

Fair value = 459090 lei

One may observe that fair value (459090 lei) is higher than accounting value (415100 lei), thus a favorable difference of 43990 lei is being registered.

Registering reevaluation results

2111 „Fields"	=	%	<u>43990</u>
		105 „Reevaluation reserves"	26490
		755 „Incomes from reevaluating tangible assets"	17500

4. During the fifth year, the entity decides to sell the field at a 512000 lei selling price, mentioning that the operation lacks VAT.

The following operations take place:

Selling the field

461 „Diverse debtors”	=	7583 „Incomes from assets selling and from other capital operations”	512000
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Management discharge

6583 „Costs concerning ceased assets and other capital operations”	=	7583 „Incomes from assets selling and from other capital operations”	45909
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Starting from the selling price (512000 lei) and the field's accounting value (459090 lei) results an income from transfer

105 „Reevaluation reserves”	=	1175 „Reported result representing redundancy resulted from reevaluation reserves”	26490
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### **Case 2: The field owned by the entity is purchased together with a dwelling**

The entity S.S. Example S.A. purchased a cold storage of 157000 lei, with its afferent field worth 38000 lei, VAT 20 %. The normal period of using the storage, according to the fixed asset's catalogue, is 25 years, and the chosen amortization system is the linear one. At the end of the financial exercise, the field's fair value is 43100 lei.

The following operations take place:

Purchasing the cold storage and its afferent field

%	=	404 „Fixed assets provider”	<u>234000</u>
212 „Constructions”			157000
2111 „Fields”			38000
4426 „Deductible VAT”			39000

Cost registering of annual amortization

6811 „Operating expenses concerning fixed assets' amortization”	=	2812 „Dwelling amortization”	6280
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Calculating dwelling's annual amortization according to linear method :  $157000 / 25 = 6280$  lei

Registering the result from field's reevaluation

Field's accounting value = 38000 lei

Field's fair value = 43100 lei

2111 „Fields”	=	105 „Reserves from recalculation”	5100
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### **Case 3: The field owned by the entity is used for constructing a building with the purpose of selling it**

The entity S.C. EXAMLPE S.A. detains a field evaluated at a fair value of 41600 lei, whose initial value was 39270 lei, and the reevaluation reserve is 2330 lei. The entity wishes to build a hall destined to selling on the surface of the field it detains.

The following operations take place:

Reclasifying the field from fixed assets category, to stock category.

371 „Merchandise”	=	2111 „Fields”	41600
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Realizing reevaluation reserves

105 „Reevaluation reserves”	=	1175 „reported result representing redundancy realized from reevaluation results”	2330
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The costs related to hall construction: raw materials 148120, wage expenses 25439, the field 41600 lei.

Registering the hall's production expenses:

601 „Raw material expenses”	=	301 „Raw materials”	148120
641 „Personnel's wage expenses”	=	421 „Personnel – owed wages	25439

607 „Expenses concerning merchandise”	=	371 „Merchandize”	41600
Registering hall’s work in progress			
331 „Production in progress”	=	771 „Incomes afferent to stock products”	215159
Registering hall’s reception			
345 „ Finished products”	=	331 „Production in progress”	215159

## 5. Conclusions

The users of financial situations benefit of an accurate image of an entity only when the entity, through evaluation, updates the value of its patrimonial elements. Pointing out reevaluation reserves must be made on each and every fixed asset and on each and every operation which took place.

The fields must be evaluated with a sufficient regularity, and this reevaluation needs to be done by qualified persons who have an experience in this domain.

Regardless the purpose for which the fields were purchased or detained, the related reevaluation reserves, are transferred in 1175 account “The reported result representing redundancy realized from reevaluation reserve”, when the fields are pointed out.

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