FAIR VALUE ILLUSTRATED IN OMFP 1802/2014

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Abstract

The fair value of assets is calculated from the evidence of market data through an assessment by authorized appraisers, according to law. The fair value of tangible assets is calculated based on their market value, based on information that we would use market participants in setting asset price. The fair value is determined by reference to one of the following:

a) market value, for those financial instruments for which a reliable market easily identify.

b) a value resulting from models and generally accepted valuation techniques for financial instruments that can not easily identify a reliable market, so these models and valuation techniques to ensure a reasonable approximation of market value.

Keywords: *fair value, market value, acquisition cost, production cost, weighted average costing method.*

1. Introduction

This study introduces the accounting regulations of OMPF 1802[1] (2014) of Romania.

As FVA represents a major component of International Financial Reporting Standards (IFRS), the findings provide insights on global challenges to the international accounting convergence.

To advance convergence between national and international standards, OMFP 1802 (2014) is an internal standard issued to comply with IFRS 13.

1.1. The question of the research topic

We remark that important cultural and legal differences in property investments made by Chinese and Western companies. In China, nobody has the right to land ownership because it is an active state. It may be intangible value associated with land that welcomes rather than the building itself, which stands as a physical object that depreciates mostly by aging. “There are still some issues that have an impact on the background check calendar periods and contractual transaction costs” admits Deloitte[2] (2011) that while transparency in contracts for real estate investment market in China has improved in recent years.

The lack of accurate property sales and leasing, transaction data, the lack of statistics on supply and demand for investment goods and the lack of centralized data on real estate investments are some problems described above. This does empirical evaluation of Chinese companies applying either for real estate investments on historical cost or fair value accounting FVA and to ask a question. This is noticed in Romanian companies. The question of research topic is expressed as:

Features Romanian companies using fair value accounting are much different than those that use historical cost accounting according to OMPF 1802 (2014)?

This paper is introduced in three sections: Section 1 is Introduction, Section 2 provides literature review, data assumptions and research methods and conclusions as Section 3.

2. Literature review, data assumptions and research methods

The financial statements show the economic phenomena in words and numbers. Description of annual financial statements must be complete, neutral and without errors.

A complete description contains all information necessary for a user to grasp the phenomenon described and explanations.

The acquisition cost is the price plus related expenses minus discounts due to the cost of acquisition. The acquisition cost of assets includes the purchase price, import duties and other taxes, without the legal entity that can recover from the tax authorities, the transport costs, handling and other expenses directly attributable to the acquisition of goods. The cost of acquisition is reflected by commissions, notary fees, costs of obtaining permits and other non-recoverable expenses, directly attributable goods. Transport costs are the cost of acquisition when supply function is outsourced.

The production cost is the purchase price of raw materials and consumables together with other expenses directly attributable to the asset in question.

The cost of production or processing of inventory and cost of production of assets includes direct costs related to production, such as: direct materials, energy consumption for technological

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[1] http://contabilul.manager.ro/dbimg/files/ORDIN_1802.pdf

[2] Deloitte 2011, *China real estate investment handbook*, Deloitte Touche Tohmatsu, Beijing.

purposes, direct labor, other direct costs of production, the cost of designing products and the share of indirect costs of production apportioned rationally.

The items in the financial statements will be based on the principle of purchase or production cost.

Upon entry into entity, assets are estimated and recorded in the accounts at cost, which is determined as follows:

- the cost of purchasing goods purchased for consideration;
- the cost of production for goods produced in the entity;
- the amount of the contribution determined after evaluation of goods representing company capital;
- the fair value for assets obtained free of charge or addition to inventory found.

The amount of contribution and the fair value substitute the acquisition cost.

At the end of the period the balances differences account accumulate the stocks at record prices. These accounts should reflect, as appropriate, acquisition cost or production cost.

The acquisition cost or production cost of stocks in the same category and all fungible items is determined by one of the following methods:

- WAC weighted average costing method;
- the first-in-first-out FIFO;
- last in first out method LIFO.

The weighted average costing method (WAC) requires determining the cost of each item on the weighted average cost similar items in storage at the beginning period and the cost similar items purchased or produced during the period.

The weighted average cost related items in stock at the beginning of the period and the cost of similar items purchased or produced during the period determined periodically or after each reception. The calculation period shall be the average length of storage.

According to the first-in first-out (FIFO) the output assets from management are estimated at the acquisition or production cost of first entry. While the batch is exhausted, emerged from managing assets estimated at the acquisition or production cost of the next batch in chronological order.

According to the last in-first-out method (LIFO) the output assets from management are estimated at acquisition or production cost of entry. While the batch is exhausted, emerged from managing assets estimated at the aquisition or production cost of the previous batch in chronological order.

Notwithstanding the assessment based on the principle of purchase or production cost, entities may revalue tangible assets existing at the end of the financial year so that they are carried in the accounts at fair value, with mirroring results of this reassessment in prepared financial statements for that year.

Differences in price over the cost of acquisition or production are highlighted separately in accounting, is recognized in cost of the asset.

A process may result in the simultaneous production of several products, for example, in the case of obtaining products are produced or where there is a main product, and the other side. If the conversion costs can not be identified separately for each product, they are allocated according to a rational and consistent basis. For example, the allocation is based on the relative sales value of each product either at the stage of production where products become separately identifiable, or at the completion of the production process. By their nature, byproducts mostly immaterial. They are often measured at net realizable value. This is determined by the cost of the main product. Therefore, the carrying amount of the main product is not materially different from its cost.

When certain general -administration- costs or costs of designing products are identified with links on some stocks they are included in the cost of stocks.

If service providers have inventories, they estimate the costs of their production. They consist of labor costs, other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period they are incurred. Cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often incorporated into prices charged by service providers.

The cost of production of goods is a reasonable proposition in fixed or variable overhead costs indirectly attributable to the item in question, whether they relate to the production period. Overheads are included in cost of inventories that are incurred in bringing the inventories to the location and shape. The cost of production distribution costs not included.

If after the initial recognition as an asset, the value of an asset is determined based on the asset revaluation, revaluation gains attributable to the asset will instead cost of acquisition / production cost or assigned values before any other asset.

In these cases, depreciation rules will apply taking into account the value of its assets, calculated after revaluation.

When making revaluation of tangible assets, the difference between the value resulting from the evaluation based on the cost of acquisition or production cost and value resulting from revaluation must be disclosed under the revaluation reserve as a sub-element separately in capital and reserves - account 105 Revaluation reserves.

There are some basic assessment rules.

Current assets are assets generating future economic benefits and are held for a period exceeding one year. They are valued at acquisition cost or manufacturing cost, observing the provisions of subsection present.

The acquisition cost or production cost or revalued amount, in cases where the provisions of subsection 3.4.1 of OMPF 1802/2014. Revaluation of tangible assets, the fixed assets whose use is limited in time is reduced by value adjustments calculated to systematically amortization of the value of such assets over their useful economic use .

Future economic benefits from an intangible asset include revenues from sales of products or services, cost savings or other benefits resulting from the asset by the entity. For example, use of intellectual property in a production process will reduce future production costs rather than increase future revenues.

The cost of a separately acquired intangible assets consists of:

- the cost or acquisition, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any directly attributable cost of preparing the asset for its intended use.
- Examples of directly attributable costs are:
- staff costs due to bringing the asset to its working condition;
- professional fees arising directly from bringing the asset to its working condition; and
- costs of testing whether the asset on its proper functioning.

Current assets are valued at acquisition cost or production cost, as applicable, with respect to the following: value adjustments are made to current assets in order to present them at the lower market value or another minimum amount attributable to them at the time balance sheet.

If they are active nature assemblies or housing complexes which originally were intended for sale and which later changed its destination and will be used by the entity for a long period or be leased to third parties accounting records transfer of stocks to tangible assets. This transfer is performed upon the change of destination, the values at which assets were accounted for cost-represented.

Fair value is the price received from the sale of an asset or paid to transfer a liability in a transaction settled between market participants at the measurement date.

Fair value is the price that would be received to sell an asset in a transaction regulated main market, if any, or most advantageous at the measurement date, in the current market conditions, ie an exit price, regardless of whether the price is directly observable or estimated using another valuation technique.

Full description of an asset group containing at least a description of the respective assets, a numerical description of all assets and indicating initial cost or fair value.

The fair value of assets is calculated by evidence of market data through an assessment by authorized appraisers, according to law.

If no data on the market of fair value because of the specialized nature of the assets and reduced frequency of transactions, fair value may be determined by other methods used by appraisers approved according to law.

Evaluation of tangible assets on the balance sheet is carried at the costs incurred during the period to improve and increase the performance of the asset or restructure the operation to which it belongs restraint, without amortization and adjustments accumulated impairment, or revalued amount, being the fair value at revaluation date without any accumulated depreciation and any accumulated impairment losses.

On leaving the entity, the assets is estimated and subtracted from the value of their input management or value which are accounted for. In this regard, the revalued amount to tangible assets which were revalued or fair value for short-term securities admitted to trading on a regulated market.

For liabilities, plus any difference observed between asset value and book value are recorded in accounting on account of suitable debt.

Notwithstanding the assessment based on the principle of purchase or production cost, entities may revalue tangible assets existing at the end of the financial year so that they can be presented in the accounts at fair value, reflecting the results of this reassessment in the financial statements made for that year.

Depreciation of tangible assets thus calculated shall be recorded in the accounts revalued from the financial year following that for which it was conducted revaluation.

Revaluation of property and equipment is carried at fair value at the balance sheet date.

Revaluations are performed regularly, but the carrying amount should not differ materially from that which would be calculated using the fair value at the balance sheet date.

The fair value of tangible assets is calculated based on their market value, based on information that we would use market participants in setting asset price. It is assumed that market participants act in order to obtain the maximum economic benefit.

If the fair value of tangible assets can not be determined, shown in the balance sheet value of the asset will be its revalued amount at the date of the last revaluation, minus the cumulative value adjustments.

The fair value is determined by reference to one of the following:

- market value, for those financial instruments for which a reliable market easily identify.

If the market value is not readily identifiable for an instrument but will be identified for its components or for a similar instrument, it will be derived from that of its components or similar instrument;

- a value resulting from models and generally accepted valuation techniques for financial instruments that can not easily identify a reliable market, so these models and valuation techniques to ensure a reasonable approximation of market value.

Financial instruments that can not be measured reliably by any of the methods described above are evaluated according to the principle of purchase or production cost, if the assessment is possible on this basis.

Entities will be estimated in the consolidated financial statements of financial instruments, including derivatives, at fair value.

Goodwill is the difference between the acquisition cost and fair value at the date of the transaction, the portion of net assets acquired by an entity. He is recognized on consolidation.

Goodwill arising on the acquisition of a foreign entity and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity should be treated as assets and liabilities of the foreign entity.

In the debit of account 103 Other items Equity record: adjustment of the fair value reserve as a result of unfavorable differences in measuring financial assets available for sale in the consolidated annual financial statements.

In the credit of account 501 Shares in affiliates are recorded: adjusting the fair value reserve as a result of unfavorable differences in measuring financial assets available for sale in the consolidated annual financial statements.

An entity identifies a biological asset if and only if fair value or cost of the asset can be measured reliably.

Entities will use information regarding the combined assets to estimate the fair value of biological assets.For example, the fair value of vacant land and land improvements may be deducted from the fair value of the combined assets to determine fair value of biological assets.

If a financial instrument is measured at fair value, any change in value, favorable or unfavorable, are included in the income statement, except next to such a change is directly in equity:

- the financial instrument is a hedging instrument and recognized in the group after hedging rules that allow some or all of the changes in value is not recorded in the income statement; or
- the change in value relates to an exchange difference arising on a monetary item that forms part of an entity's net investment in a foreign entity.

Change the value of a financial asset available for sale, is not a derivative, it comprises directly in equity - 1038 account differences fair value of financial assets available for sale and other equity.

Concessions, patents, licenses, trademarks, rights and similar assets representing intake, purchased or acquired in other ways, are recorded in accounts of intangible assets at cost or value of the consideration, as applicable. In this case, the contribution is assimilated fair value.

Monetary items are money held and assets / liabilities receivable / payable in fixed or determinable.

Monetary items has as main feature the right to receive or obligation to pay a fixed or determinable number of units of currency. For example: pensions and other employee benefits to be paid in cash; Provisions that will be settled in cash; and cash dividends that are recognized as a liability. Similarly, a monetary item is a contract to receive or deliver a variable number of equity instruments of the entity or a variable amount of assets in which the fair value to be received or delivered equals a fixed or determinable monetary unit.

Benefits form the entity's own shares or other equity instruments granted to employees are recorded separately and accounting compensation expense 643

proprii- in equity instruments, in return for equity accounts -1 031 Employee Benefits proprii-form of equity instruments at fair value

those equity instruments from the date of granting of those benefits.

Grants related to assets are awarding grants whose primary condition is that the recipient entity to buy, build or purchase assets.

A government grant takes the form of a non-monetary transfer, for example, an item of property. In this case, the grant and assets are carried at fair value.

Government grants, with non-monetary grants at fair value, will not be recognized until it is certain that the entity will meet the conditions of granting them and the grants will be received.

Grants for activities with non-monetary grants at fair value are recorded in the accounts as investment grants and are recognized in the balance sheet as deferred income - 475 Investment subsidies account. Deferred revenue is recorded as current income in the profit and loss account during the recording of depreciation or scrapping or disposal of assets.

Financial instruments are valued at purchase price or production cost in the following cases:

- For each class of derivative financial
- instruments: The fair value instruments, if such value will be determined by any of the methods listed in. 121 par. (1) a) "market value, for those financial instruments for which a market can easily identify credible. If the market value is not readily identifiable for an instrument but can be identified for its components or for a similar instrument, it can be derived from that of its components or similar instrument "and information about the extent and nature of the instruments;

- Financial assets recorded at a value higher than their fair value: carrying amount and the fair value of individual assets or appropriate groupings of those individual assets; and the reasons for not reducing the book value, including the nature of the evidence underlying assumption that the carrying amount will be recovered.

Financial instruments are measured at fair value when the significant assumptions underlying the valuation models and techniques where fair values have been determined in accordance with pt. 121 par. (1) b) "value and models resulting from generally accepted valuation techniques, financial instruments for which can not easily identify a reliable market, provided that such valuation models and techniques to ensure a reasonable approximation of market value '; for each class of financial instruments, fair value changes in value included directly in the profit and loss and changes in fair value included in reserves.

The provisions of subsection 3.4.2 Fair value measurement of financial instruments are applied to the annual consolidated financial statements. If financial instruments are measured at fair value, this is presented and justified in the notes to the consolidated financial statements.

If you opted for revaluation of tangible assets or valuation of financial instruments at fair value provisions of Section 3.4 shall apply alternative valuation at fair value of OMPF 1802/2014.

Non-monetary items purchased with payment in foreign currency and carried at fair value - for example: revalued tangible assets - will be presented in the financial statements at this level.

The historical cost is an accounting convention involves recording assets at their purchase or production while the claims and liabilities are recorded at their nominal value.

In the notes must be presented at historical cost value of revalued assets and the amount of cumulative value adjustments; or at the balance sheet value of the difference between unrealized gains and representing the historical cost and, where appropriate, the cumulative amount of the additional value adjustments. separately for each item in the balance of nature revalued property and equipment when making revaluation.

We get a research from BVB (Bursa de Valori Bucureşti) Bucharest Stock Exchange at 3/11/2016 We remark that 40% of companies listed on BVB are investment funds and properties. More than 50% of Romanian companies are using historical cost.

3. Conclusions

We conclude that the fair value of assets is calculated from the evidence of market data through an assessment by authorized appraisers, according to law. The fair value of tangible assets is calculated based on their market value, based on information that we would use market participants in setting asset price. The fair value is determined by reference to one of the following:

a) market value, for those financial instruments for which a reliable market easily identify.

b) a value resulting from models and generally accepted valuation techniques for financial instruments that can not easily identify a reliable market, so these models and valuation techniques to ensure a reasonable approximation of market value.

Then entities will use information regarding the combined assets to estimate the fair value of biological assets.For example, the fair value of vacant land and land improvements may be deducted from the fair value of the combined assets to determine fair value of biological assets.

If a financial instrument is measured at fair value, any change in value, favorable or unfavorable, are included in the income statement, except next to such a change is directly in equity.

Finally, financial instruments are measured at fair value when the significant assumptions underlying the valuation models and techniques where fair values have been determined in accordance with pt. 121 par. (1) b) "value and models resulting from generally accepted valuation techniques, financial instruments for which can not easily identify a reliable market, provided that such valuation models and techniques to ensure a reasonable approximation of market value '; for each class of financial instruments, fair value changes in value included directly in the profit and loss and changes in fair value included in reserves.

The provisions of subsection 3.4.2 Fair value measurement of financial instruments are applied to the annual consolidated financial statements. If financial instruments are measured at fair value, this is presented and justified in the notes to the consolidated financial statements.

Using a research from BVB (Bursa de Valori Bucureşti) Bucharest Stock Exchange at 3/11/2016, we note that 40% of companies listed on BVB are investment funds and properties. Over 50% of Romanian companies use historical cost.

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