

ACCOUNTING FOR SUBSIDIES WITHIN ENTITIES IN ROMANIA

Moise Domil¹,
Oana Alina Bogdan²

Abstract

Through this paper we want to present a study of the subsidies obtained in order to develop the activity of the entities and to analyze the impact they have on the profit and loss account, the balance sheet and the main economic and financial indicators. This paper is intended to be a systematic work on operating grants to show how important they are to the continuity and expansion of an economic entity.

Given that the goal of any entity is to obtain profit as a result of resource consumption such as: time, human, technological, material or monetary resources, it is expected that the investments made will result in accordance to the effort made to ensure good continuity of work and to ensure job security.

The aim of this paper is to present the theoretical and practical aspects regarding the accounting of grants and their impact on the performance of an entity's performance.

Key words: *subsidies, assets, accounting, fiscal treatments*

JEL Classification: *M41*

1. Introduction

Government grants are represented by government-sponsored aid, having the configuration of transferring funds to a particular company. All this if certain conditions are met regarding the operation of that entity. Government assistance is rooted in governmental action, with the objective of conferring specific economic benefits on an enterprise or category of entities that enshrine certain principles.

It is also important to note that European directives, in accordance with accounting regulations, define the notion of subsidies and fall within the category of asset-related subsidies and in the category of subsidies related to income. Grants in general are the amounts received from government or government agencies and other similar, national and international institutions for:

a. covering losses resulting from calamities, offsetting certain expenses, or securing certain future expenses. These are income-related grants.

b. procurement of fixed assets or their construction. These are asset-related grants.

The implementation of European funds to finance development work brings a positive impact to ensure profitability and competitiveness for any economic entity.

Subsidies are used by the government as economic and financial levers, with the aim of indirectly influencing the economy by supporting investment. Subsidies can become a mechanism of balance between different areas of the country or between different levels of government, especially towards poorer areas.

In order to ensure a good performance, under the most efficient and optimal conditions it is indispensable for the entity to have a diversified and adapted range of tangible assets that are necessary for society but also to meet the requirements of the market. It is important to have such a fixed asset because it is reflected in the results of the entity's business. The higher the tangible assets of the entity, the more efficient, but also the easier to manage

¹ West University of Timisoara, Faculty of Economics and Business Administration, via J. H. Pestalozzi No. 16, 300116 Timisoara, Romania,

² Accounting and Audit Department, West University of Timisoara, Faculty of Economics and Business Administration, via J. H. Pestalozzi No. 16, 300116 Timisoara, Romania, mail: oana_bogdan26@yahoo.com, oana.bogdan@e-uvt.ro

2. Accounting and fiscal treatments applicable to subsidies

2.1. Accounting treatments

Given that in Romanian law, our accounting is a commitment, the obligation is usually that revenue is recognized when a claim is made, and when the debt is incurred, the expense is recognized.

In IAS 20, we have the "Government Grants Accounting and Statement of Government Assistance Information":

Government assistance is represented as an action taken by the government to help one or more businesses to achieve a future economic benefit.

Analyzing this Standard, we note that government assistance does not only provide indirect monetary support, but that these actions influence general economic factors, such as infrastructure provisions in development areas, or the imposition of commercial constraints on competing companies.

Government grants are Government assistance, these being resource transfers for an entity but with the exchange of assurance that the conditions required for the entity's operating activity will be met.

Subsidies remove forms of government assistance that can not reasonably be attributed to a price as those transfers with the government, in which normal business operations can not be carried out.

Asset subsidies are government grants, which, in order to be granted, are the main condition that the entity that will benefit from them must purchase or realize immobilized assets. As secondary conditions are the restriction of the location, the type of assets, or the periods when they will be acquired or owned.

Income subsidies contain all government subsidies other than assets.

Non-reimbursable loans are loans whose creditors take the responsibility to exempt the borrower from their return if the pre-established obligations are met.

The fair value is an amount in the amount of which one or more assets may be traded voluntarily between the parties concerned at the place where the transaction price is objectively determined.

Subsidies are recognized by an economic company when they meet their assumed obligations when their receipt becomes a certain thing and when their size can be determined.

In the financial statements, IAS 20 describes two approaches to the recognition of government grants, such as:

- Balancing approach. what is the capital approach that refers to a subsidy that is passed directly to equity?
- Result-based approach is an income approach, under which a grant will be included in revenue over a period or periods of management and will not be passed directly to equity.

As for the two approaches, there are pros and cons.

The argument that subsidies are charged directly to equity is that as long as no repayment is required, the subsidies must be directly credited to the interest of the shareholders, ie equity capital.

The arguments for the direct allocation of equity grants take into account that since no repayment is requested, subsidies must be credited directly to the interest of the shareholders, ie equity.

These are incentives received from the government without the associated costs, it would be inappropriate to recognize them directly in the profit and loss account.

The arguments for allocating grants to revenue over time refer to the idea that grants are input sources, not shareholders, which implies that they should not be directly credited to shareholders' interest and must be recognized as income correlate the related costs.

These subsidies are not free, as the enterprise receives them only after they ensure that the required conditions and obligations are met.

Subsidies can be considered a prolongation of fiscal policies, so they need to be recorded as revenue as taxes and taxes are recorded at lower costs if they are tax incentives.

The Standard recommends a second approach, the outcome, ensuring that grants are recognized as income in the period in which they can be correlated with related expenses in order to make the compensation and not directly to equity

In principle, costs covering subsidies and related periods can be easily identified and determined.

So the passing of income subsidies is done on a systematic basis, their direct switch would be a deviation from the accounting records, if they are not already recorded.

If a government grant is received as a compensation for a certain expense or for a loss already incurred, it will be recognized as income from the period that the claim is part of.

Evaluating and recording non-monetary grants raises another problem. This situation causes the asset and the grant to be recorded at fair value, otherwise the subsidy and the asset may be recorded at face value.

In accordance with IAS 23, leniency treatment includes: depreciation of premiums on debt securities, interest and other borrowing costs, such as: commissions and fees of creditors and IAS 17, financial charges associated with finance leases and differences results of the exchange rate of a foreign currency loan, as it is seen as an adjustment of interest expense and others.

According to IAS 23, "Borrowing Cost", it comprises the cost of interest and other costs borne by an enterprise related to the borrowed funds.

In the following, we will present the pros and cons of capitalization. These will be highlighted in the table below:

Table no. 1. Pros and cons of capitalization

Arguments for capitalization	Arguments against capitalization
<ul style="list-style-type: none"> * purchasing or production costs are costs of indebtedness, * the assets included in the cost of some assets will be related to the income of the future periods, * the result being better, comparing the assets built up in own direct with the purchased ones. 	<ul style="list-style-type: none"> * the possibility of choosing whether we want to correlate the costs of dealing with a specific asset, * different capitalized values of the same asset may result from different funding methods, * if we highlight the costs of indebtedness as spending, it will attract better comparable results.

Recognition of borrowing costs leads us to a general recognition of an expense. The expense will be recognized at once with the increase of a debt or the decrease of an asset.

Typically, expense is associated with associated income in the same accounting period, except for impairment charges. Hence, borrowing costs will be capitalized in order to be directly related to the revenue generated by the assets made with help from borrowed funds.

Thus, an interest rate can be capitalized only for an asset that, in its nature, needs a long training cycle to become operational, ie it will not capitalize the interest associated with the funds secured to the purchase of assets that will be ready for use when they are bought. Thus, on the entire path of the asset mentioned above, the financial expenses will be correlated with the income generated by the respective asset.

The cost of borrowing resulting from the amount of capitalized expenses could have been avoided if there was no expense with the asset that has a long manufacturing cycle.

Loans can be of two types:

- specialized loans are the funds borrowed in an identified manner for obtaining an asset for which the leu fact that is to be capitalized is represented by a real cost incurred over the entire period of its trip, except the revenues from the temporary placement of the funds borrowed;
- non-specialized loans are generally borrowed funds, they are derecognized as a result of the cost of borrowing that will be capitalized, applying the weighted average of the cost of the borrowing to the asset expense.

The amount of borrowing costs incurred during that period should not be exceeded by the amount capitalized over a period.

Capitalized interest is therefore part of the cost of an act. The interest capitalization requirement does not apply:

- if stocks occur in large quantities, in a repetitive manner,
- whether those assets that could be used immediately, whether or not they are used.

If we position ourselves in a situation where the interest is capitalized, then that amount will be shown on the balance sheet as a going asset, which will be passed on expense over the life of the asset by amortization.

If we position ourselves in the other situation when we do not capitalize the interest, then it would result in a decrease in the result when the interest expense will be recorded, without correlating with the expected revenues to result from the investment made.

So it is necessary for the economic society to ensure the same accounting treatment and the cost of indebtedness so that the comparability of the economic information can be sealed.

2.2. Fiscal treatments

Subsidies fall under the tax regulations because at one moment or another, they will generate revenue. Thus we have presented the subsidies in several articles of the Fiscal Code:

- Art. 24 lit., r), refers to subsidies received for the purchase of goods, if the grants were granted under the legislation, they fall under the category of non-taxable income.
- Art. 108 letter c), shows how from the taxable base of a tax on the income of micro-enterprises the income from the exploitation activity is reduced, having the share of the government subsidies and other resources for the realization of the financing of the investment.

The annual profit and loss account is directly influenced by the registration of the income subsidy granted, the reflection of which on the profit is a positive one. Thus, European accounting regulations indicate the passage of income subsidies while the investments made are amortized and the amount of depreciation related to that part subsidized from the total value of the investment is represented.

As a remedy for the economic situation of an entity in difficulty and with outstanding tax obligations, there are reductions and exemptions on outstanding obligations, they are especially applied to entities that are owned by the state. They also have the effect of lowering tax liabilities on the balance sheet.

Exemptions from reinvested tax have a balance sheet effect, a rise in fixed assets, but also a decrease in the obligations to the budget. This has a direct effect on the profit and loss account, if it reduces the expenses related to the corporation tax due, and if it increases the turnover due to efficient investments, then it is an indirect effect. The second effect is an incentive that helps the entity grow.

3. Organization and management of subsidy accounting

3.1. Accounting for income-related subsidies

These subsidies consist of all government grants, other than those for assets, to finance expenditure such as:

- Buying raw materials and materials indispensable to the production process,
- Ensuring the quality of the personnel, ie their training,
- Payroll,
- Ensuring the provision of consultancy services,
- And other.

Amounts to be received in the partners' account to be transferred to the Managing Authority must be shown in account 458, called "Settlement of Joint Ventures", with separate analytics for the respective partners.

If we have pre-financing, we will charge it to the grant account to be registered as a debt, account 462 "Various Creditors" because they are not free, and their obligations must be met. Prefinancing will close with account 445 "Subsidies" when you actually bind the fund.

In order to become eligible for receiving funds, the potential beneficiary must contribute financially but prove it.

Private co-financing can be made, if available, from its own sources or from donations and sponsorships received, or from bank loans.

If the conditions for granting income subsidies have not been met, there is a reimbursement that will be recorded in the accounting as a changed accounting estimate, which affects only the current and subsequent years.

This reimbursement, related to revenue, involves resuming the grant amounts reflected in the deferred income. If this amount exceeds the deferred income, then that difference will be passed as an operating expense.

3.2. Accounting for investment subsidies

These grants are granted if their beneficiary buys or acquires fixed assets.

Asset proceeds, as well as inventory surpluses, of the nature of intangible and tangible assets, are accounted for in the investment grant accounts.

In the case of special funds, they are used as set out in the normative acts on the basis of which they were constituted, such as: the acquisition of maturing rates made for external credits ensured the payment of property providers or the cost of indebtedness, but also for other destinations.

Investment grants are accounted for using the "Investment grants" account and the accounts:

4751 "Government grants for investment"

4752 "Non-reimbursable grants for investment grants"

4753 "Donation for investment"

4754 "Inventory Assets of the nature of Assets"

4758 "Other amounts received in the form of investment grants"

If we pay directly, the debts in foreign currencies for certain encyclopaedias or subsidy financing, from the sums repaid by those subsidies, without transiting the accounts of the company, we will reflect in the accounting the debt in foreign currency but also the receivable from the corresponding subsidies.

If, at the end of the reporting period or at the end of the month, the debt accounts for suppliers and subsidy balances have a balance, then they will be valued so that the related expenses and revenues do not affect the outcome of that month.

3.3. Reflection of subsidies in the accounting of entities in Romania

Main operations related to income subsidies:

- If subsidies are received to fund certain expenditures, and they have not yet been made, the funds will be credited with upfront revenues:

445 "Subsidies"	472 "Revenues recorded in advance "
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- Receipt of subsidy:

5121 "Banks accounts in lei"	445 "Subsidies"
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- Including the grant at the expense

6xx "Expenses..."	401 "Providers"
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- Resumption of subsidies as revenue is recorded as follows:

472 "Revenues recorded in advance "	741 "Income from operating subsidies"
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Key operations for investment subsidies:

- Subsidies registration:

445 "Subsidies"	475 "Investment subsidies"
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- Receipt of subsidy

5121 "Banks accounts in lei"	445 "Subsidies"
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- Purchase of an asset:

2xx "Properties"	404 "Properties providers"
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- Recording monthly depreciation:

6811 "Operating Expenses on Depreciation of Fixed Assets "	281 " Depreciation of an fixed asset"
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- Înregistrarea trecerii subvenției la venituri:

475 "Investment subsidies"	7584 " Income from Investment subsidies"
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4. Conclusions:

Each entity is made up of different perceptions of transformation that will generate expenditures, ie consumption and at the same time produce income, that is, results. These can be grouped into two activities, namely financial and exploitation activities. The exploitation activity varies from one entity to another, depending on its subject matter, as opposed to the financial activity that is similar in content to any company.

The acquisition of new tangible assets, as well as the bringing of existing ones to the optimal level imposed by the current technical progress, is limited by the actions made in investments, which with their innovative characteristic modifies the existence of the economic situation, thus causing the emergence of other technological elements.

In view of these conditions, the purchase of new fixed assets will be conditional upon taking into account factors such as the ability of the enterprise to assure the necessary conditions of operation and use, its overall objectives and the company's development strategy, reason for which receiving subsidies is an aid to any entity that operates in the Romanian business environment.

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