ACCOUNTING FOR THE PROSPECT OF DISINVESTMENT IN ROMANIA'S AGRICULTURE

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Abstract:
The fixed assets held for sale have a special accounting treatment, being used by companies as a result of managerial decisions aimed at creating new sources of financing during financial crisis situations. In this context of economic instability, companies are oriented towards financial stability rather than towards achieving steady profit growth. As a result of the sale of assets, the disinvestment process has been achieved, which has gained amplitude in recent years. This paper presents the phenomenon of disinvestment and the accounting characteristics of fixed assets held for sale by a company, analyzing the principles of recognition, classification of fixed assets for sale, as well as the accounting treatments applicable to them, referring to the specialty literature, the national and international norms.

Key words: *assets held for sale, disinvestment, agriculture, fair value, Altman model*

JEL Classification: M41, Q14,

1. Introduction

In 2004, the International Accounting Standards Board adopted IFRS 5 "Fixed assets held for sale and discontinued operations", in the desire to converge with the accounting standards in the American system. The adoption of this standard was represented by the abrogation of IAS 35 standard "Discontinued Operations". Penning argues that the adoption of the new standard is a more comprehensive legal aid, providing detailed information on how to implement and the benefits obtained by the companies that report respecting the requirements of the International Accounting Standards (Penning, 2009).

The term of "held for sale" has been introduced at international level in the same time with the adoption of IFRS 5 regulations "Fixed assets held for sale and discontinued operations," and may be explained by the intention and ability to dispose of an asset (Raso, 2012). The decision to sell a fixed asset is an important commercial event that produces changes and significantly influences the results of an entity, its net asset. The impact of this event on selling fixed assets and how they are reported is a major interest to investors, analysts and other users of financial statements. Applying international regulation can have a significant effect on the profit or loss of a company, on the value of the asset and the presentation of the results. The impact on financial statements may extend to past and future accounting periods. Experience over time has shown that the implementation of IFRS 5 standard is complex and involves more time consuming.

From an accounting point of view, international regulation sets out requirements for the classification, valuation and presentation of fixed assets held for sale (Raso, 2012). These requirements to be met when it is about a fixed asset held for sale, have to be analyzed against the requirements that are met for fixed assets in general, with special attention paid to the revaluation of assets of the two categories.

The process of investment and disinvestment within an entity was highlighted, being closely related to the issue of assets held for sale. The process of disinvestment is represented as a rationalizing process of the entity's capital, of rational use and reorganizing of assets in order to obtain new resources to prevent possible financial crises at the company level (Moisescu, 2012). Disinvestment includes the following activities (Stoica, 2001): sale of part of the company's assets; Decommissioning (demolition, scrapping, dismantling) of part of the

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company's assets; Evacuation of machinery and hazardous waste; Organizing of recovery and valuation activities for the decommissioned items.

Disinvestment should not be seen as a failure for a company's activity, but being a managerial decision that contributes to better results in the future. Disinvestment has an impact on the company's performance and on the results it achieves.

The year 2012 represents a moment of essential changes in the Romanian accounting system by passing on the application of International Accounting Standards (IFRS) as a basis for the accounting, by certain categories of entities, the listed companies.

The implementation of international accounting standards in Romania is considered a complex and difficult process that has to take into account many factors (Albu, others, 2013), among which the most important could be considered: "the characteristics of the Romanian accounting system, its historical perspective, the characteristics and attitudes of the Romanian companies, users of the financial statements, and their expectations, the features of the Romanian accounting profession.

The application of these standards was achieved in Romania through the adoption of Ministry of Finance Order 1286/2012, and represented a complex process in which several parties were involved; yet, the economic, financial, intellectual efforts were supported by the respective entities, the auditors and their consultants. The modification of Ministry of Finance Order 1286/2012, introduced in the Romanian accounting a new account "Fixed assets held for sale".

A fixed asset classified as held for sale is assessed at the lower value of the accounting amount and the fair value, minus the sale costs (Monea, 2010). What is important for Romanian accounting is that a fixed asset is not depreciated while it is classified as held for sale. This regulation produces relevant changes in accounting.

The specialty literature sets out two major directions for analyzing assets held for sale. One of them is the accounting delimitation between the assets held for sale and the fixed assets, and the second is the link and the impact of the recognition and, possibly, the sale of the assets held for sale on the financial performance of the company.

This paper presents the phenomenon of disinvestment in the field of agriculture, and the accounting peculiarities of fixed assets held for sale by an agricultural company, analyzing the principles of recognition, classification of fixed assets for sale, as well as the accounting treatments applicable to them, referring the specialty literature, national and international norms.

2. Classification of fixed assets held for sale

IFRS 5 International Standard "Fixed assets held for sale and discontinued operations" regulates that a fixed asset may be designated by a company as held for sale if its accounting value will be recovered mainly by a sale transaction and not as a result of its continued use. The standard also regulates the principles of recognition, assessment of assets held for sale.

An asset enters into the asset category held for sale if it is subject to sale in its current condition. The group of assets held for sale is represented by a series of assets or even liabilities related to it that the entity intends to alienate or exchange with other assets in a single transaction.

In this situation, the asset or the disposal group must be available for an immediate sale as it stands at that time and subject only to common and existing terms for such assets and the sale of the asset or group of assets are highly probable.

The sale of the asset may be highly probable if a sales plan is drawn up for it by an appropriate level of management that must also include an effective program to search for potential buyers and complete the plan. The market promotion of the asset must be performed at a price correlated with the fair value of the asset, and the sale plan should specify that the

possibility of modifying the sales plan or its interruption is minimal. Another important regulation for this asset category is its finalization within 12 months of the date when the asset was classified as held for sale. There are also situations when, due to events or circumstances, the sale period may be prolonged, meaning that the 12-month period is exceeded. In this case, strong arguments must be presented to support the fact that the sale is postponed due to events that cannot be controlled by the company, and that the asset sale plan continues. There are also cases where the immobilized asset is acquired with the intention of reselling it. For this case, the asset is recorded as held for sale only at the time of purchase only if the resale is realized within one year.

A company assesses a fixed asset for sale at the lower of the accounting value and the fair value less the sale costs. In the cost of sales category there are included the direct expenses related to the disposal of the asset, which would not have existed if the disposal had not been achieved. Prior to determining the recognition of a fixed asset as being held for sale, the net asset value of that asset should be determined in accordance with the applicable standards. After the change from fixed assets to assets held for sale, no depreciation is recorded for the respective asset.

In the case of impairment losses for any initial or subsequent decrease of the accounting value of an asset, the entity shall perform a subsequent assessment until the accounting value is equal to the fair value, less the sale costs. The company recognizes profit from any subsequent increase in the fair value, less the sale costs, provided that such increase does not exceed the cumulative impairment loss that was recorded according to IFRS 5 or on an earlier date according to IAS 36.

3. Basis for the decision to disinvest in the field of agriculture

Disinvestment or disposal of assets refers to how to obtain additional financial resources from an internal source by selling some assets that are not useful for the company's core business in their current condition, with the purpose of developing the company.

The specialty literature places disinvestment in the funding categories of an entity alongside with: self-financing, capital increase, medium or long-term loans, listing on the stock exchange, investment funds, and European funds. Disinvestment can be explained or can be produced when replacement investments are higher than gross investments, and thus there is a reduction in real technical capital. Disinvestment is seen as a "creative destruction" that offers opportunities to redistribute resources to other more productive activities.

Disinvestment must not be confused with the liquidation of a company. There are major differences between the two, disinvestment being the creation of some financial resources from the disposal of some assets to finance other activities or other investments that are more productive for the continuation of the business activity, and the liquidation of a company represents the sale of all assets for the payment of debts and closure of the company.

Disinvestment must be a decision made as a result of a market analysis, as it has both positive and negative effects, depending on what is being abandoned and funded later. A negative effect can be found when giving up some assets as a result of its physical and moral wear and tear. A positive effect is when by cession of assets are obtained sources of finance that can support other investments.

Disinvestment should be seen as an inverse process of an investment, as a result of this specification, when analyzing the disinvestment decision, account is taken of the methods and techniques of forecasting an investment, but interpretations are reversed. Therefore, for the valuation of an investment, account is taken of the allocation of an amount sum of money, the measurement of the profitability of the treasury cash flows obtained from the time allocation, and for the valuation of the disinvestment first it is released the assigned amount of money, the cash flows that are lost being assessed. For both investments and disinvestments, the net

present value is assessed, which, as specified, must be the opposite of the two situations, meaning that for VAN investments it must be positive and the highest, and for the disinvestment it should be negative and as much smaller.

In an agricultural company, certain machines that are no longer productive are given to the divestiture. In the field of agriculture, companies choose the disinvestment as a way to fund the core business because it represents financial support and revenue growth, or financing another more useful and performing asset for the time being. In this area, agriculture has begun to develop more the mechanization side of all man-made activities, and therefore more and more machines are emerging, making it easier to carry out activities. Funding of agriculture from foreign sources is more difficult because there are few companies that have access to the capital market because of the conditions imposed by it. Due to the limited access to external financing sources, agriculture uses disinvestment, which should not be seen as a negative factor in the development of the company, but as a way of renewing the asset portfolio by interrupting an investment that proves to be unprofitable at the moment of its conclusion, and the orientation to another investment.

In the field of agriculture, obtaining profits each year depends not only of an efficient management, but of a good production capacity of the machines or of a market where there is a fairly high demand for agricultural products, but it depends very much of the climatic conditions, especially drought. Even if science has advanced and modified the genetic structure of cereals, of the planting seeds so as to resist a longer period to drought, if there is no water either from nature or from irrigation, the production per hectare is minimum, not providing financial stability to the entity, exiting obligations (lease agreements in general) that have to be honored regardless of climatic conditions.

For an agricultural company, getting production below the minimum per hectare for two consecutive years is way to bankruptcy. The existence of tangible assets that can be alienated in a crisis situation may represent the rescue from bankruptcy, meaning the disinvestment operation, rationally used and based on indicators and market conditions favorable to the economic context of the company. The share of tangible assets in total assets is quite important, and also the evaluation and re-evaluation policies taken by the management and valuation policies are significant and have a major impact on the entity's financial condition; they must be based on well-established forecast policies (Diaz, 2008). The cession of an asset may be a success for the entity if a fair assessment of the financial statements, the asset and the relationship between them is performed so that the incomes of the sale determine an increase in the financial result.

Economic analysts have tried to find answers to any decision about the entity's situation, including forecasting the bankruptcy of a company.

A mathematical model used for this forecast is the Altman model, which was first used in the United States in 1968 (Ilea, 2006). The model determines the success or failure of the entity on the basis of a score function that is formed of financial indicators that can determine management decisions for the disposal of some tangible fixed assets in order to obtain incomes that provide the profits of an entity if there is a risk of profit decrease.

The model has been designed in a period of about 10 years and presents a formula for both listed and non-listed companies, which increases its efficiency and appreciation. The mathematical formula consists of five variables representative for the financial statements, with the following writing (Anghel, 2002):

$$\mathbf{Z = 0{,}717\ r_1 + 0{,}847\ r_2 + 3{,}107\ r_3 + 0{,}420\ r_4 + {,}998\ r_5}$$

where:

r_1 = working capital / total assets - company flexibility

r_2 = reinvested profit / total assets - asset self-financing rate

r_3 = gross profit / total assets - rate of economic profitability

r_4 = size of own capitals / total debt - the company's leverage ability
r_5 = net turnover / total assets - return on assets

Depending on the result obtained from the calculation of Z formula (Dumitrescu, 2010), the following interpretations are deduced: if $Z \geq 3$, the company concerned is not in danger of bankruptcy, meaning that it is solvable; If $88 \leq Z < 3$, the entity has financial difficulties, but they can be solved if a suitable strategy is applied, if $Z < 1.8$, the company is bankrupt or the risk of bankruptcy is imminent.

Table 1. Calculation of the Z formula according to Altman Model

Year	R_1	R_2	R_3	R_4	R_5	Z
2014	0.355513	0.282061	0.372704	3.520161	0.769252	3.897982
2015	0.444622	0.020916	0.024379	2.629362	0.729772	2.2449
2016	0.364385	0.193906	0.255003	2.402762	0.641884	2.867556

The results obtained following the application of the Altman model are in line with the financial statements and reflect a true and fair view of it. In 2014, the company holds a rate bigger than 3, which indicates the solvency of the entity, in the following years, the rate is bigger than and less than 2, meaning that the entity needs to take certain security measures to ensure financial stability. Decreasing the Z function is due to the allocation of investment credits, therefore it has to be checked whether the investment will provide the company with higher benefits than the present value.

As a result of the evolution of the Z function, the management of the company performs an analysis of the tangible assets situation, it can be conceived a new strategy, the giving up to a new credit for financing a new investment, the purchase of a machine, and the implementation of the disinvestment to unlock financial resources to ensure part of the investment and the difference, if applicable, from the current year profit.

In this case, disinvestment may be a source of funding, if it is based on a strong ground, following the analysis of financial indicators. The classification as an asset held for sale involves renouncing to records of depreciation expense, which has an impact on the financial statements by increasing the profit. If the decision to transfer a tangible asset to assets held for sale proves to be a failure, and the entity transfers the asset to tangible assets, in the accounting being calculated and recorded the depreciation related to the asset classification period is recorded, which generates additional expenses, and results in a decrease in profit. Thus, a simple depreciation record influences the entire financial situation of the entity in question. That is why international and national norms provide for distinct mentions of these assets in the financial statements and explanations underlying this process.

4. Conclusions

The mathematical model presented in this paper may represent a management support in interpreting the financial statement, the entity performance, and a financial forecasting method, as well as the taking of the decision to assign an asset. The analyzed company is not listed on the stock exchange, but the analysis has been made from the perspective of aligning Romania to international accounting standards, highlighting the main advantage, the one of the reduction of expenses by stopping the depreciation record.

Following the application of the mathematical model to the entity's situation, it has been demonstrated that the company is not about to become bankrupt, but it needs a strategy to obtain new sources of funding for a new investment, excluding a bank loan.

Over time in Romania the disinvestment process was not used for the benefits it offers, and the financial resources obtained from the cession were not used to fund a new investment but to cover a deficit in the financial statements of the companies. It is also advisable that management carefully study the financial statements, the economic context, the possible unpredictable situations before making the decision to disinvest.

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