

ACCOUNTING AND TAXATION ASPECTS REGARDING THE DEPRECIATION OF FIXED ASSETS IN THE AGRI-FOOD ENTERPRISES OF THE REPUBLIC OF MOLDOVA

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Abstract

If accounting issues concerning the calculation of fixed assets depreciation are considered by most economists as rational and appropriate to the requirements of market changes, then, when it comes to the interpretation of this problem for tax purposes the situation becomes much more contradictory and unusual. In addition, the differences between accounting and taxation rules concerning the determination of amortization amounts are so significant, that it seems, voluntarily or involuntarily, that there is a lack of a unique approach at the state level to solve this issue, and the unwillingness of competent bodies to harmoniously combine the interests of society as a whole and partially those of economic agents.

Key words: accounting, depreciation, fixed assets, taxation

INTRODUCTION

A special role in the costs of the agri-food sector enterprises is given to the amortization of fixed assets calculated using the methods fixed by the accounting policies of a certain enterprise. On the one hand, the amortization of production fixed assets is included in the cost of manufactured products and through the distribution expenses, it directly influences the size of gross profit, the level of profitability and investment attractiveness of the processing enterprises for local and foreign capital. On the other hand, the information regarding the calculated amortization of fixed assets owned by enterprises or taken by them in financial leasing (lease) that serves for the elaboration of the Income Tax Declaration and related Annexes, shall be recalculated in accordance with the requirements of Articles 26 - 27 of the Tax Code (2007), and due to all consequences generated by the taxable temporary and deductible differences it modifies the current debts of taxpayers to the state budget, which under certain conditions can have a positive impact on their financial situation.

But so far most accountants and managers haven't still realized the purpose of the amortization policy in conditions of inflationary market economy, what are the advantages provided by the accelerated

calculation of fixed assets amortization, who or what influences the selection of one or another method and how to combine the accounting methodology with the basic objectives of any enterprise - cost minimization and profit maximization. Therewith, it should be mentioned that along with the increase of fixed assets' prices, there will be an enhancement of the amortization policy role in the product cost formation and insurance of their competitiveness both on the local and foreign markets.

MATERIALS AND METHODS

The determination of fixed assets depreciation is carried out by the economic agents according to the provisions of the Tax Code (2007), Register of fixed assets and intangible assets (2004), NAS „Intangible and tangible assets” (2013), General Plan of accounts (2013) and other normative acts. As empirical basis and initial material we took the data from accounting records, value of corrections, value base of the inventory items and other information agents. In the study, priority was given to the monographic method of the economic events description applying elements of comparison, induction and deduction.

RESULTS AND DISCUSSIONS

The paragraph 22 of NAS „Tangible and intangible assets” (2013) stipulates the use of the following methods to calculate the amortization: the straight line depreciation method, units-of-production depreciation method and the declining balance method. The approach to determine the amortization value according to each method and its influence on the amount of enterprise costs/expenses don't generate objections or uncertainties. The problem lies elsewhere. If the accounting aspects concerning the calculation of fixed assets amortization are considered as a whole by most economists as rational and appropriate to current requirements, then at the chapter of interpreting this problem for tax purposes the situation is much more contradictory and unordinary.

When drafting the Tax Code provisions regulating the rules and conditions to deduct the amortization of material property under taxpayers balance, used over a period longer than one year and exceeding the value of 6000 MDL (2007), one took as a basis the USA experience regarding the tax system reform. In accordance with the laws of 1981 and 1986, adopted by the US Congress, all the firms and companies have switched to calculate the amortization for tax purposes according to the Accelerated Cost Recovery System (ACRS) (Alborov,1998). The essence of this system consists summarily in the following:

- the items that have the same destination and natural features or similar materials (for example, automobiles, machinery, buildings, etc.) are classified in homogeneous groups. In addition, all the items from a group or another must have the operating period and the same operating year;
- the term „liquidation value” which is similar with „residual value” used in the local accounting system is not taken into account when determining the amortization value;
- as a basis to calculate the amortization one can use the input cost which is determined according to financial accounting data. Later this cost does not change;
- the time limits set by law to recover the value of fixed assets are more reduced then the

operating period of these objects determined by the enterprises in financial accounting;

- the amortization is calculated gradually using the declining balance method;
- the amortization norms are differentiated not only by groups but also by years. For example, for the items with the 5 year amortization period these norms are established as follows: 20% - for the first year, 32% - for the second, 19.2% - for the third, 11.52% - for the fourth, etc. Simultaneously, the traditional norm expected for uniform (linear) value recovery is doubled; the norms for the item's operating year (i.e. the first year of usage) and for the year following the expiration of the calculated amortization period is taken at a rate of $\frac{1}{2}$; the norms for the amortization period (except the first year) are determined as the multiplication of doubled linear norm and the difference between 100% and the amortization norms for previous years; for the items with relatively high amortization period (5 years or more), after the input value recovery of the prevailing part the norms does not change.

As in the USA, the national system of fixed assets value recovery for tax purposes is based on the accelerated calculation of the wear using the declining balance method, grouping of the items into categories of merged property (a total of 5) and the application of unique amortization norms for all the assets from one or another category. However, the mechanism of using these criteria and especially the set of used accounting data differ considerably from the international experience thus, complicating largely the achievement of established objectives. For example, the size of a criterion reporting to a specific category of property for sugar industry equipment with the operating period of 12 years (Register of fixed assets and intangible assets, 2004) constitutes 16.67 % ($AC = 200:12$). Since the result is higher than $N3 = 10\%$ but it does not exceed $N4 = 20\%$, the mentioned equipment refers to the fourth category of property with a unique amortization norm of 20% for all years. This means that the amortization period is 5 years ($100:20$) and during this period the input cost of the equipment should be divided fully to the expenses established as deductions. Actually,

however, because of the abandonment of the two most important principles of ACRS system (differentiation of the amortization norms by years and switching to the straight-line depreciation method at a particular moment), the calculation of equipment wear for tax purposes takes usually more than the official period of amortization.

In practice, depending on the concrete conditions of enterprises, the real period of fixed assets value recovery for tax purposes can be extended multiple times, thereby increasing labour expenses of accountants and discrediting the fundamental rule of amortization policy promoted by the State (the reduction of the amortization period compared to actual duration of the operating period of fixed assets in order to stimulate the scientific and technical progress). In addition, the calculated period of amortization for tax purposes increases as the input cost of items included in one category of property or another increases. For example, each subsequent doubling of the fixed asset value with the operating period of 3 years and the wear norm of 30%, causes a 2 year increase of the calculated wear term. Consequently, one can create an absurd situation when certain fixed assets are no longer in an enterprise (because they were deducted or sold), but their amortization for tax purposes continues to be calculated. Thus, the Tax Code, as correctly noted T. Prisacar, „... are just declared, but do not contribute to accelerated depreciation of the fixed assets value compared to their depreciation in the financial accounting” (Prisacar, 2006).

The way of determining assets amortization that should be deducted from the calculation of taxable income is sophisticated too. Therefore, in order to complete each line of the Fixed Assets Register by categories of property for tax purposes, the accountants or financial workers are forced to perform many arithmetic operations and simultaneously to make multiple selections from the files (registers) of financial or management accounting in order to obtain information about bypassing various limits and restrictions. For comparison, we can mention that in the USA, in order to determine fixed assets amortization for tax purposes it is

necessary to perform only one operation – to multiply the patrimony input cost, which is not subject to corrections, to the amortization norm differentiated by years.

Thus, although the conceptual basis of the calculation method of fixed assets amortization stipulated in Article 26 of the Tax Code is a progressive one, stimulating investments in tangible assets, the mechanism of its achievement is still artificially sophisticated and complicates the accomplishment of pursued objectives. In connection with this fact, it would be rational for the ministry to reinterpret some key moments of the current system of the patrimony value recovery for tax purposes, making it simpler, more affordable and more illustrative. One of the possible directions to solve this problem can be the implementation of the method used in the USA for tax purposes, the one that provide real economic benefits.

In order to confirm the above-mentioned facts, there was calculated (in Table 1) the amortization of the sugar beets chopping machine which is part of the fourth category of property and has an amortization period of 5 years, while determining the possible tax effect of the implemented new method (Table 2).

Table 1. Calculating the amortization of the sugar beets chopping machine using the method implemented in the USA for tax purposes, MDL

Year	• Amortization value for • deduction	Accounting value at the end of the period
•	• 1	• 2
•	• $210000 \times 20 : 100 = 42000$	• 1680 00
•	• $210000 \times 32 : 100 = 67200$	• 1008 00
•	• $210000 \times 19,2 : 100 = 40320$	• 6048 0
•	• $210000 \times 11,52 : 100 = 24192$	• 3628 8
•	• $210000 \times 11,52 : 100 = 24192$	• 1209 6
•	• $210000 \times 5,76 : 100 = 12096$	• –

Note. Input cost of the machine constitutes 210000 MDL, while the operating period is 12 years.

Table 2. Calculating the possible tax effect depending on different used methods to determine the amortization of the sugar beets chopping machine, MDL

Year	Amortization value determined by the following methods:			Deviation of col. 4 data from		Savings on the income tax		The surplus on the income tax	
	straight-line depreciation method	declining balance method	the method used in the USA	Data of col. 2	Data of col. 3	col. 5x 15:100	col. 6x 15:100	col. 5x 15:100	col. 6x 15:100
A	1	2	3	4	5	6	7	8	9
1	16660	34986	42000	25340	7014	3801	1052	-	-
2	16660	29157	67200	50540	38043	7581	5707	-	-
3	16660	24300	40320	23660	16020	3549	2403	-	-
4	16660	20251	24192	7532	3941	1130	591	-	-
5	16660	16878	24192	7532	7314	1130	1097	-	-
6	16660	14066	12096	-4564	-1970	-	-	685	296
7	16660	11722	-	-16660	-11722	-	-	2499	1758
8	16660	9769	-	-16660	-9769	-	-	2499	1465
9	16660	8142	-	-16660	-8142	-	-	2499	1221
10	16660	6785	-	-16660	-6785	-	-	2499	1018
11	16660	5655	-	-16660	-5655	-	-	2499	848
12	16740	18289	-	-16740	-18289	-	-	2511	2744
Total	200000	200000	210000	10000	10000	17191	10850	15691	9350

CONCLUSIONS

For the agri-food sector enterprises, the use of accelerated calculation methods of amortization could ensure the uniformity of the total costs related to fixed assets for the years of service thus, not only presenting a major theoretical interest, but also being a practically urgent necessity.

One of the possible directions to improve the calculation methods of amortization for tax purposes, making it simpler, more affordable and more illustrative, can be the implementation of the method used in the USA, the one that ensures real economic benefits.

Implementing the experience of developed countries not only accelerates the recovery of fixed assets value for tax purposes and increases the amount of savings on the income tax at the initial stage of patrimony use, but also removes the uncertainty regarding deduction deadlines as well as the dependence of those deadlines on the input cost of fixed assets.

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