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Analyzing the sustainability of the accounting valuation practices in Romania during the adaptation period to the European Union

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Abstract:
This article was composed of accounting valuation bases. The historical cost evaluation regime and fair value-based evaluation model are compared by considering certainty, uncertainty, and sustainability.
The article primarily deals with the structures, principles of recognition of the elements incorporated in the assessment of evaluation models and their applications in Romania in the 2000s. Recognition of evaluation models is highlighted by addressing a specific conceptual framework- the criteria are underlying the specific recognition of the different types of approach patrimony and their sustainability. Thus, the general states pair criteria for recognition, resulting in tandem: utility calculating the expense and assessing the valuation.
The criteria found in the IASB Framework and Romania applications are retained in the adaptation the period of the 2000s from a closed economy to western type liberal economy, in general recognition that elements in the evaluation of any company, regardless of accounting to which circumscribe referential, without excluding the necessary details in the presentations of accurate financial statements. The findings have been presented with the support of tables composed of the users' current applications.
Keywords: Evaluation, revaluation, historical value, financial statements, IFRS, accounting applications.
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Introduction

This article has been prepared to bring the primary and alternative national rules to the forefront in evaluating tangible and intangible assets applied by accountants, auditors, appraisers, and financial inspectors. These applications have been compared with the International Accounting Standards that focus on the International Regulations context's accounting treatments. Additionally, the article also analyses the effects of studied evaluation rules on financial statements.

It is known that evaluation systems in accounting have taught rules. Accounting evaluation has concrete rules, fundamentals, and foundations. The evaluation methods have the actions to reflect the economic shape of a company to show that how much profit that company may provide in the future. The accounting evaluation principles are absolute, but these principles' users should devote their willingness to provide accounting information to the interest groups. It can be understood that accurate analysis cannot be reported to the interest groups if they are not enriched by communicating them together with evaluation results and the balance sheet figures. Accounting can be designed or organized without involving sustainability, including quality, costs, planning, efficiency, users' demand, maintenance, and environmental requirements. Regulatory agencies of developing countries should act in time to establish adaptive rules in transition periods. In the lack of sufficient national programs, new developing economies are being constructed at the local level, which increases the competitiveness of the cultural system and attracts new investments in the territory (Palmi et al., 2016).

For the second half of the 20th century, Romania had an inward-oriented economic development model strongly connected to socialist economies' industries. These dominant

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planned economy practices created inefficient parameters in its economy and accounting because of not bringing forward or paying attention to efficiency. Without sustainable efficiency parameters in the economy, accounting did not need to produce any competitive accounting regime. Some studies (Gordon, 2008) show that the said changes' cost was not essential for the developing countries for the implementation period. Besides technical perspectives, sustainability in accounting practices refers to considering social and environmental concerns. According to this framework, the activities of a company affect the environment by the thoughts and behaviors of intensely trained and highly educated employees, and the results of these cannot always be measured with numbers. It could be said that the companies, which will stand out in the future will be those who obtain a commitment from their people and develop a learning capability at all organizational levels by working collectively in the establishment of a new standard, develop a new technology or even comply with a particular legislative norm (Caputo et al. 2014)

In this paper, the historical cost regime is discussed by considering the fair value regime's applications. For example, an extraordinary gain from a financial asset because of reducing interest rates in a period decreases expected interest revenue from the fair value model for that asset's remaining life. Unexpected changes in the fair values of financial instruments are both unsustainable and uncertain.

1. Evaluation principals at historical cost application

The historical cost term mentions the original cost of an item according to the purchasing transaction date's cost. The historical cost identifies an asset's original cost from its replacement cost, current cost, or inflation-adjusted cost. That means that historical cost is simply the original cost of an asset of a company. It can easily be identified by checking the purchasing document, such as an invoice. Because of the time difference between the purchasing date and the current date, there would be a difference between the original value and the actual value. Historical cost ignores other cost considerations such as fair value, replacement cost, or current market value. Only the original price paid is considered (Prochazka, 2010).

At historical cost applications, assets and liabilities are followed according to the acquisition date's cost, and because of this, sometimes there are severe amounts of differences. For this reason, there should be some certain adjustments when it is necessary. For example, there are depreciation expenses for the assets that have a long life to decrease their original cost proportionally according to the estimated used period. On the other hand, if the asset's value decreases lower than the adjusted cost, impairment cost should be applied to upgrade the registered cost to the asset's net realizable value (Kimmel et al. 2008). The Generally Accepted Accounting Principle (GAAP) demands that accounting entries are registered and followed at the historical cost to provide highly trusted reliability at financial statements because the fair value levels of market conditions are arguable.

There are fierce debates between historical cost and fair value is focused on long-term assets. The historical cost works well for these assets, which are not sold in the short term and consumed throughout their economic life in a company's activity. These are the assets such as property, plants, and equipment. Historical cost is not utilized to follow stocks' value because the stocks' price is expected to change. Additionally, stocks have very high circulation and are expected to be purchased and sold quickly. Stock prices depend on the companıes, are reported at their market value or fair market value.

If a company chooses the historical cost principle, an asset will be kept in accounting at its purchased value until it is sold or disposed of. For example, company XYZ purchased land at the cost of twenty thousand dollars may increase in value and is worth forty thousand dollars, but it would remain on the books at the amount of twenty thousand dollars until it was sold. At the time of the sale, the increase in value is recorded to gain on the asset.

Equipment purchased by company XYZ would remain on the balance sheet at historical cost. If the equipment is sold or disposed of at any time, the transaction is recorded using the historical cost, less depreciation, and gain or loss on the disposal, which would be recorded.

1.1. Limitations of historical cost accounting

- Depreciation expense is calculated based on the value of the asset's acquiring date and estimated economic functional life.
- Depreciation is not related to the actual replacement market prices.
- The company's profit will not be related to the asset's actual cost according to the current

market level.
- The market's inflationary movements are not considered, and because of this, the company's capital would melt.
- Because of not considering asset's depreciation expenses and the cost of sold items according to the market prices, the company's profit would over-calculated, which would over-calculated, which would push the company to pay artificially more profit.
- To evaluate the company's performance and managers' ability would be very complicated because the figures in financial statements may not reflect the current situation.
- A comparison of the company's performance among the actual and previous years would provide accurate results.
- Main financial ratios such as ROA (return on total assets) would not present a trustable result because of continuing high inflation of that economy.

1.2. Evaluation of the accounting entries

The detailing of evaluating process' implications on accounting information cannot be realized without a perfect perception of the process's various points, evaluation types, grouped and based on related and particular criteria. From the fair point of view, we can distinguish assets evaluation, assets groups evaluation, economic assets evaluation (according to departments, cost centers, and profit centers.), or company evaluation. Sustainable profit is a vital point for companies. For example, Boros and Fogarassy (2019) say that the lack of profit and profitability is the most significant sustainability risk for state-owned enterprises.

Because the evaluations are meant to reach a specific target, there are two principal routes on evaluation: evaluating accounting targets and the economy's facts. The accounting evaluation is used in different approaches for controlling accounting activities. The balance-sheet gives "a true image of financial statements and results of a company can only be followed by the company's evaluation performance" (Staicu et al. 2000).

There are four rules of a company elements' evaluation:

- Evaluation at the moment of entry, another word, book value defined at the time of acquisition condition: that means, purchase price, plus customs duties, transportation, assembling and putting into service costs; production costs for products that produced in the company; utility value, connected to the market price, for similar products, and on product's situation, if it is acquired free of charge or donated; contribution value for the goods represents a contribution to a company's social capital;

- Evaluation process on the inventory – is made at the actual value or utility value of all elements, called inventory value;

- Evaluation application at the end of the accounting period, company assets being evaluated and reflected in accounting at the acquisition value or connected to the results of inventory;

- Evaluation applications at the moment of output from the company, through sale, destruction, disposition, or consumption, using specific cost flow methods, i.e., FIFO stock follow up method (first input – first output); LIFO method (last input-first output); Current market price (CMP) and (weighted average cost, which is computed at entry time or monthly by the proportion between the total value of beginning stocks and the entered quantity and its value); registration or standard price method, but considering the dimension of the differences compared with the acquisition prices or production costs. Maintaining the same method must justify using any evaluation method during some followed accounting periods (Gradinaru et al. 1997).

The point has been mentioned in the previous paragraph that the accounting evaluation has a crucial weakness, saying that in all four evaluation periods, it is used the historical cost, only partly corrected at the annual inventory and balance-sheet (Sichigea et al. 2000).

The other difficulties of accounting evaluation appear when this calculus of financial and efficiency indicators is taken to the company's total advanced capital, immobilized and circulating assets, even if a part of them does not participate in receiving the company's reports (Staicu et al. 2000).

Different than the accounting evaluation cases, the economic evaluation situations relate the evaluated object to market conditions. "The rational market value is the price, which a buyer and a seller could appreciate if the asset would be sold on the open market in a rational period, in the case that the seller and the buyer know the market situations and each of them is not forced by the act" (Kieso et al. 2007).

The economic evaluation cases primarily for selling-buying transactions are determined by some motivation, market value, or actual operation price that occurred from that value.

Trying a critical and comparative approach to compare the accounting evaluation systems, the booking system reflects the patrimony in a given moment; an evaluation process adjusts its assets to produce future economic benefits to that company (Kieso et al. 2007).

2. Evaluation model based on fair value

The term "fair value" is typically used in finance and economics. It is defined as an unbiased estimate of the market price of any goods, service, or asset. In accounting, an assets' fair value is used to estimate its market value if known markets do not have prices for that particular asset. Fair value is also used to determine an asset's worth when its value varies from market to market. Choosing an appropriate evaluation model pushed up economic parameters on the way to the European Union. For example, it is stated that in some European Union countries such as Romania and Slovakia, the perception – true or false – that elite people are getting distance from it needs to be directed in its terms (Oroszki, 2019).

Fair value, also named a fair price (in a commonplace conflation of the two distinct concepts), is an evaluation model utilized in accounting applications in order to have more rational financial statements by using actual market prices by considering the replacement cost of the actual market and all other practical issues. The fair value evaluation system also considers social factors and the characteristics of the company's risks and market, cost of return on capital, and perceived utility for individuals. The purpose of fair value is to determine the certainty of the market prices for each asset and liability.

In accounting, fair value is used as a certainty of an asset's market value (or liability) for which a market price can be determined (usually because there is no established market for the asset).

2.1. Fair Value Concept

Fair value accounting is a type of cost follow-up method allowed by accounting standards to permit entities to follow their assets and liabilities according to the current market prices (IASB, 2011).

In the application of the fair value method, when companies observe an increase or decrease in their assets or liabilities, they introduce these differences as gain or loss to the profit and loss accounts and later on to income statements.

2.2. How practical is fair value accounting?

To understand how practical fair value accounting is, we need to underline firstly what limitations the historical cost method has and why the users need the necessity to apply the fair value accounting.

At first, figures' trustworthiness at historical cost accounting is out of the discussion and not subjective. Their trustiness is out of the discussion, but on the decision-making process, they cannot support correct values to the managers because the figures, which represent them, belong to the acquisition date of years ago, and that is not valid at the actual time. That means the represented value of the asset is not relevant at the actual time for buying-selling transactions.

The vital thing for defining fair value figures of assets and liabilities is to be as close to market prices. When reflecting the acquisition prices or cost to the appraiser report's actual levels, the methods should be presented clearly and in detail. When somebody reads these calculations, the results should be understood and accepted without any questions.

2.3. Why fair value accounting?

The most concern point of fair value is the relevant position to the market prices because the four main expected characteristics of financial statements are relevance, comparable, understanding, and reliability during market valuation. It is accepted that financial statements adjusted with fair value measurements would present values closer to the market's actual levels.

3. Historical cost versus fair value

To be fair on this discussion between historical cost and fair value, we need to classify both methods' advantages and disadvantages.

Historical cost accounting takes on its power from accounting principles, precisely, the principle of prudence. Firstly, it is a matter of amortization, which is inherently artificial and rigid, and secondly, it is a matter of depreciation adjustments, which have limited applicability (Tournier J.C., 2000). Entirely, on the contrary, the two concepts are complementary, as each has both strengths and weaknesses (Deaconu A., 2004).

The historical cost valuation methodology is the most common one comparing among all others. It can be identified very merely by studying the acquisition documents and records for a specific asset. The historical cost accounting system is mainly used because completed transactions support it, and it is not difficult to confirm (Ristea, 2003).

On the other hand, a fair value accounting system is not easy to check, and it is subjective. It is simply based on an appraiser's estimations, assumptions, and interpretations after analyzing, processing, and presenting the provided data. Even though the appraisers may be requested to provide certain qualification conditions to conclude the evaluation process, their results at the end of the evaluation process may be different from each other.

The actual value of an asset in the market may widely differ from day to day, region to region, and it can easily be manipulated because of the unstable conditions of the market. For this reason, the quality of estimation for future values of an asset may have much less trustiness.

After entering the company, any market movements on the asset's value would decrease the historical cost accuracy. Besides the high trusties, this damages the historical cost position against the market value (Ristea and Dumitru, 2013). For this reason, while the historical cost system keeps its prudence, the market value system has its relevancy power. That means the fight is between the credibility of historical cost and the relevancy of market value. Especially at high inflation or continuous high inflation, historical cost widely loses its relevance with market facts. All financial performances comparing the assets' values would be over-valuated such as profit and overvaluations would produce a high inflation tax, which leads to higher dividend distribution, which would create losing the company's capital. This inconvenient situation would create the demand to overcome the inflation's effects on financial reports. An inflationary accounting system is one of the solutions that have been established in the economies, which have fought with severe inflationary damages for an extended period. However, some analysts indicate that inflation accounting fails to reveal the actual value of the assets created by the company (Deaconu, 2004). Inflation accounting focuses on only the past figures according to following inflation indexes or some such ways.

In addition to its irrelevance, some scholars claim that historical cost is not applicable, and they put forward the arguments (Hagendorf, 2009).

It is a fact that the historical cost valuation has lost its relevance, and the need to adopt the accounting model to the requirements of shareholders has imposed new solutions, one of which was to perform more accurate valuation methods. In recent years, a new method has appeared, and regulatory organizations have offered the practice of evaluating assets based on fair value by covering up almost all the balance sheet items.

The request for using fair value evaluation mainly comes from the shareholders to follow their investments' actual value. Besides shareholders, the fair value applications are also very important for other interest groups such as customers, banks, unions, and suppliers. At the beginning of the 1980s, it became an essential element of management culture, and an official ideology applied practically to the management of an ever-increasing number of companies.

The main principle of fair value is the cost of invested capital is not valuable by itself but only by comparing it to the resources, outsources, or the sources from the shareholders. Traditional evaluation results, such as the historical cost approach, cannot provide accurate and trustable figures to companies' management. The relation between historical cost and fair value may allow us to define, and in some cases, apply for some of the conclusions. Both fair value and historical cost valuation methods have some advantages and disadvantages from various aspects (Woodford et al. 2008).

Table 1 below presents the comparison of the main characteristics of Fair Value and Historical Cost accounting systems. These are the points for being in favor or against these two accounting evaluation measurement systems.

The main argument of fair value is that the information provided by financial statements made based on just value is not dependable because they are not based on verifiable transactions and, therefore, they cannot constitute grounds for making decisions (Shell, 2009).

4. Evaluation rules

All accounting records are considered as the light of monetary phrase, as expressed value. It defines the acquiring value, the production cost, the sales value of goods or services, the payments, and receiving, whether they are performed the elements monetary or none. All these activities, carried out in money, are the subjects of the evaluation process.

It is necessary to apply the evaluation process by following the national regulations; for example, the most recent contributions were OMFP 3055/2009 by harmonizing the international accounting standards for its tangible and intangible assets.

The accounting records of a company are evaluated basis on the cost of acquisition or production cost. Making the records by considering the acquisition or production cost is a government order (Order from the Ministry of Public Finance nr. 3055/2009). This Order defines the principle evaluation rules of tangible assets.

4.1. The basic evaluation rules

The Order of the Ministry from Public Finance no.3055/2009 and previous regulations provide basic evaluation rules in four periods:

- at the entry into a company,
- at the time of inventory,
- at the end of the fiscal year,
- at the time of exiting the property.

Evaluation occurs at acquisition cost, production cost, fair value, or other considerable worth regarding the evaluation at the entry into a company. Fair value is defined through a functional evaluation, usually by professional assessment (The Romania Government Decision no. 1553/2003).

Carrying value is recognized after adjustments for depreciation deduction or loss of value and accumulated amortization for the amortizable assets. Depreciation adjustments also function for unchanged stocks. The net realizable value for inventories is calculated from the regular market prices of the goods.

An asset’s value is clarified by the asset’s functions, condition, and market price. The value correction of tangible and intangible assets is calculated based on additional depreciation. The adjustments are introduced according to the legal procedures for the specific assets, inventories, or liabilities. At the exiting the property, the tangible and intangible assets are evaluated at the value registered in accounting, registering as revenues with necessary adjustments for depreciation or related losses (Law 571/2003).

4.2. Basic evaluation rules for intangible assets

An intangible asset used continuously for more than one year, the company’s target (The Order of the Ministry of Public Finance no.3055/2009 published, Official Gazette no.766, November 10, 2009, art. 65). Reporting the parts of tangible and intangible assets is made in explanatory note no.1, attached to the financial statements. This explanatory note presents the tangible assets at the original cost of acquisition or production cost by considering increase and decrease for the specific year, the final balance of the period, and the reversible or irreversible value of the assets (depreciation or amortization).

According to the national regulation, defining the tangible assets, OMFP 3055/2009, and the related international regulation, meaning IAS 38 regarding Intangible Assets, is presented in table 2.

Intangible assets are not physical assets like the tangible assets, and they are not in use in the production of goods and services or can be leased or rented to third parties or for the administrative target (The Order from the Ministry of Public Finance no.3055/2009, Official Gazette no.766, November 10, 2009, art.72).

The concept of “identifiable” is explained in the Order from the Ministry of Public Finance no.3055/2009. The conditions to consider an intangible asset are:

- separable –can be separated or removed from the records, or

- resulted from contractual or other legal rights.

The difference between international standards and government regulations is;

While international standards define intangible assets with precise determinations by using the words "only if,"

National regulations define an intangible asset in a broad concept without specific conditions.

It should be clarified for identification if an asset is tangible or intangible because an intangible asset is incorporated in a tangible asset. For appropriate applications, it should be determined clearly by the company which one is more important. If a tangible asset cannot be used without the assist of intangible assets, it will be recognized in the accounts as a tangible asset at the value of a tangible asset, including the value of an intangible asset.

It is also essential to define in accounting follow-up if an intangible asset is produced in a company. The expenses on the research and development process are considered the intangible asset cost if it would benefit the company in the future. If it is considered, it will create economic benefits for the entity (Government Decision no. 44/2004).

The comparative studies for recognizing the expenses of the research and development phases for intangible assets are presented in table 3.

There are mentioned examples of research activities:

- activities for the target to find out new knowledge

- identifying, evaluating applications through research developments – finding out alternatives to inventories, methods, systems, and services
- evaluation, elaboration, and final selection of the determining alternatives new or developed.

An intangible asset's development expenses are amortized according to the length of the intangible asset's economic life depends on the length of the contract or the life of the appropriate utilization. If the development cost is not amortized, its profit cannot be distributed unless the reserves and profits are at least equal to the un-amortized part of the costs.

Subsequent expenditure incurred because the development of an intangible asset will increase the cost of an asset only when that intangible asset generates benefit in the future as a result of estimated performance; otherwise, these expenses are treated as period expenses (The Order of the Ministry of Public Finances no. 1752/2005).

4.3. Basic evaluation rules for tangible assets

The new regulation obliges that although land and buildings are purchased together, they are registered and considered separately, and if there is any change in the value of any of them, it does not affect the other one's value.

If a tangible asset is held under a lease contract, that should be considered based on contractual provisions, considering the requirements of prevalence on the judiciary (The Romania Government Emergency Ordinance no. 34/2009).

There are conditions to be considered for a financial lease:

- at the end of the lease, the title of the asset is transferred to the lessor;
- at the beginning of the contract, it is inevitable that the lessee has a purchasing option at the end of the contract;
- the lease contracts cover most of the utilization life of the asset;
- only the owner can use the specific asset without significant modifications to it.

If anyone of these conditions is met, it is enough to consider a financial lease contract.

If interest is paid on debts for a financial leasing contract, the lessee will record into expense accounts according to the accrual accounting principle periodically. The lessor will recognize it as interest income (The Romania Government Decision no. 488/2009).

A new Order issued by the Ministry of Public Finance no. 3055/2009, considers the leaseback contracts regarding if an asset is sold according to the lease. Registrations would be executed according to the conditions of the lease contract.

According to the value-added tax code, there are two operations to be applied; the delivery operation of the asset transported by the lessee of the contract and the leasing operation executed by the lessor of the contract, for the calculation of the value-added tax (The Order from the Ministry of Public Finance nr. 3055/2009, and art.102 of Official Gazette nr.766, November 10, 2009).

A tangible fixed asset is initially evaluated based on the cost of entry to a company. The cost of tangible assets includes the estimated dismantling, decommissioning, and restoration costs at the beginning of the asset's placement point. All these costs are determined in correspondence with a provision account.

The following spending would increase the asset's cost if these following expenses would create benefit for the company in the future; otherwise, they should be considered period expenses. A fixed asset should be eliminated in the company's records if it is sold, disposed of, or observed to no longer provide benefit for the company.

The repair cost of tangible assets carried for operating the actual period should be accepted as period expenses. If these expenses are paid not for operating purposes but increase the technical parameters, they have to be considered capital expenditures and added to the asset's cost to benefit in the future. After these types of improvement expenses are registered, the contemporary economic life and yearly depreciation expenses should be recalculated for the asset's remaining life (Chasan, 2009).

4.4. In Romania, Alternative Evaluation Applications

Antohi et al. (2020) say that in the context of the present regulations related to the development of operational projects on the period 2014–2020 that are defined in the applicants' guide, it has been regulated that the financial auditing for projects is to be an optional application. "These provisions have led to the termination of the Collaboration Protocol regarding the organization and development of financial auditing for European funds and other non-reimbursable funds, previously conducted between the Ministry of Regional Development, Public Administration, and European Funds and the Romanian Chamber of Financial Auditors."

Anton and Bostan (2017) put forward a positive relationship between perceived capabilities and entrepreneurial activity.

On the other hand, according to the Government Decision 1553/2003, regardless of the ownership, all companies and institutions could revaluate their tangible assets on December 31, 2003, and the results of the revaluation should be reflected in the financial statements for the date of December 31, 2003.

If there is a difference between the historical cost (book value) and market price (fair value), the primary reason can be inflation in that economy, and this difference should be carried to the value of the assets remaining economic life. Excluding the fixed asset, which consumed their economic life entirely to create benefit for a company, and the asset, which is bought after January 1, 2004, all other tangible assets should be evaluated according to the inflation index, which is declared by the National Institute of Statistics for December 31, 2003.

According to European norms, Romania's first regulatory order allowing the alternative rules for revaluation of tangible assets is the Order numbered 1752/2005. This operation aimed to upgrade the assets' book value at the value of the market's actual prices. The regulation was saying that the fair price should be at the level that a buyer and a seller freely determent in the current market (The Order from the Ministry of Public Finance nr.1752/2005, Official Gazette nr. 1080, November 30, 2005, art. 53 alin.2).

According to the Order from the Finance Ministry, nr. 3055/2009, depreciation for revaluated assets would be recalculated for the following years according to the evaluated value.

If an asset consumed its economic life and fully depreciated, it would be evaluated for the estimated future. When evaluating the book value of an asset, the amount of the accumulated depreciation should also be evaluated according to the same parameters used to evaluate the book value. The same group's fixed assets should be evaluated simultaneously and according to the same parameters and methodologies.

The difference between the initial Net Value and subsequent net value should be registered in a fund or reserve account in equity. If previously acknowledged, the expense with the decrease of an asset's value will be operated as the asset's income (Wolk and Dodd, 2016).

If the revaluation decreases an asset's net book value, this will reduce the revaluation reserves or funds. Auditing and fraud control is a significant trend that should be taken seriously by corporate organizations (Simeon and Simeon, 2018). These revaluation reserves can only be distributed to the shareholders if the related assets are sold. Chersan (2019) suggests that it is essential to determine how auditors perform their tasks and what kind of education and training could support them in making the best decisions.

4.5. Revaluation applications

With the beginning of January 1, 2007, the tax law regulated that the defining land value and the fiscal value remained un-depreciated for the other tangible assets will be considered both revaluations made after January 1, 2007, and the remaining balance of revaluation application performed for the period from the year 2004 (January 1) to 2006 (December 31). Antohi et al. (2020) defınes a better understanding of the EU funds sustainability absorption, which can decrease fraud and error phenomena which affect the absorption rates in Romania and abroad.

The Emergency Government Ordinance numbered 34/2009 introduced an exception against the general application, for example, the reserves from the revaluation of recorded fixed tangible assets of the following period of January 1, 2004, deducted by calculating the gross profit from the depreciation of tax that would be subject to taxation (Bodie et al. 2007) If a company's revaluation process creates a surplus for an asset that was deducted in previous applications, which would be taxed at the time when the revaluation reserve is used.

Conclusion

Since Romania decided to have an eastern economic model, it started establishing its accounting evaluation regulations by considering sustainability. The European context has been characterized by the increased attention of regulators to sustainable development (Caputo et al., 2020). The evaluators' idea is that the economic evaluation consists of a sophisticated technique, proceedings, and methods to evaluate the goods, the assets, and a company at the market level, ensuring its comparison. The introduction of new forms of regulation about financial distress is not the only strategy adopted by the Member States to support *"honest entrepreneurs."* In recent years, we witness several initiatives introduced by the Member States to sustain firms (Pizzi et al., 2020).

Evaluation applications are from all other practices of accounting. European Stability

Mechanism (ESM) officials have been willing to provide more information about the ESM's activities and answer parliamentarians' questions (Howarth and Spendzharova, 2019). In evaluation practices, an external hand interferes with the well-registered transactions of the accounting. For this reason, this interfering, at the end of the evaluation process, should not create inaccurate results in the financial statements that would be submitted to the interest groups. Economic growth was accompanied by a rise in social conflict, which meant that topics such as the company's social function and the role of profit became increasingly important (Coronella et al., 2018).

The evaluation of the balance-sheet is determined from a risk point of view. This idea is different from the legal perspective for balance-sheets, and this provides a better evaluation in terms of strategy – investment/financing. The functional balance-sheet gets higher trustworthiness by evaluating the financial assets for risks in the short term (Nikolai et al., 2010). Regardless of the chosen form, it is considered that these types of balance-sheets are considered closer to the accounting logic of classifying company goods. The evaluation is well "underlined," his role in the accounting presentation's alignment to the actual market level is perfectly accentuated.

In conclusion, sustainability should be the unique and ultimate target for future accounting applications. At all those up mentioned, sustainability in accounting must also consider social and environmental indicators. If there are no external factors that affect the prices of a company's fixed assets, the interest groups will not force institutions to use the most efficient evaluation methodology.

In this paper, it has been discussed not only the comparison of sustainable results of historical cost and fair value evaluation systems but also Romania's experiences on this issue.

Implications for each type of accounting format

During the transition period, Romania has accumulated many experiences as far as accounting evaluation practices are concerned. On the other hand, based on current applicable tools, preferring an accounting regime is not easy because both have considerable advantages and shortcomings. This paper has tried to analyze the fair value applications and historical cost practices by comparing them in Romania's practices. The historical cost had been applied before than European Union accession period. The new one was only fair value. Comparing fair value with historical cost, later one is much easier to take care of. Fair value proponents accept that the reports prepared according to the historical principles have exact figures, but because following the values according to cost prices, they cannot be utilized in an inflationary environment. During the transition period, Romania had severe inflation percentages.

For this reason, the financial statements that are prepared through historical cost applications had a lack of power for assessing companies' value. These financial statements could not provide the current realities of companies.

On the other hand, even though it was utilized partially (only for fixed assets), fair value pulled up the factious financial statements to current market figures. International financial rules and regulations also supported Romania in the evaluation process for balance sheets in Romania. Historical cost and fair value have consequential and direct effects on balance sheets and income statements but not with the same level on cash flow statements other than tax effect.

In conclusion, the fair value had some contributions with the indices method's help to the Romania accounting system, but it could not replace historical cost. Expanding the usage area of fair value is very difficult because of its complex application.

Contributions of this paper

This paper focused on the accounting valuation system's principal movements in Romania's transition period in the 2000s. The paper harmonized the sustainable developments in the principles of evaluation regulations as far as historical cost and fair value are concerned. It was harmonized to summary how tangible and intangible assets were affected by this period and what results by these effects presented in financial statements.

Limitations of this paper

This paper has some lack of abilities that the paper solely focused on regulations, and in order to present sustainability on this challenge, it must be acknowledged with numerical support. It can be accepted that, together with specific numerical applications, the targeted presentation would be more settled in the readers' minds. As further studies, qualitative studies through one-to-one interviews, questionnaires, and focused groups, and comparative financial statements can benefit by increasing the subject matter's effectiveness.

Proposes for future studies

This paper has been based on theoretical approaches ın Romanian transition period for accessing European Union. In future studies, specific sectors or specific companies can be analyzed to observe the direct effects of fair utilization value and historical cost. Also, the differences of fair value and historical cost applications can be studied yearly with the correlation of usage level of fair value.

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Tables

Table 1. **The comparison of fair value and historical cost**

Fair value	Historical cost
It has more quality for comparing by evaluating similar elements.	It does not provide comparability information to the management.
It gives information about future benefits by using historical trends and actual financial parameters.	It generally provides financial information about the expenses and benefits of the assets and liabilities.
It follows the decisions and expectations of management.	It follows the decision of management to buy new assets or paying the debts of a company.
It provides the results of price movements as gain or loss.	It provides the results of price movements as gain or loss.
Financial statements must be prepared according to the current market prices.	Financial reports are prepared according to past transactions.

Table 2. **Comparative definitions of intangible assets**

	OMFP 3055/2009	IAS 38 "Intangible Assets"
An intangible asset can be registered in case of:	- estimation for generating profit for the company - estimation for a cost for the company according to the credible manner	- the asset is in the function of company operations; - the asset is expected to generate profit for the company in the future; - the cost of an asset is calculated according to the documents of the acquisition process; - the asset is separated from the monetary fund.
Tangible asset	- it is separable - flows contractual rights or from other legal requests	

Table 3. **Research and development expenses**

	OMFP 3055/2009	IAS 38 "Intangible Assets"
The stage of research	- If there is no intangible asset resulted from the researching stage, then there is no recognition. Research expenditures are recognized as expenses when it generates profit.	- the expenditures are recognized as cost when they occur since the entity cannot expose that an intangible asset exists; it will generate benefits for the company in the future.
The stage of development	It is recognized as an intangible asset after the development phase of a project **only and only** if it can be exposed that: - these fixed assets are completed technical and are available for use or sale - there is the intention to complete this intangible asset, for it could be used or sold - there is the ability to use or sell the intangible asset - it is set how will be generated profits by that intangible asset	It is recognized as an intangible asset after the development phase of a project **only and only** if it can be exposed that: -these fixed assets are completed technical and are available for use or sale -there is the intention to complete this intangible asset, for it could be used or sold -there is the ability to use or sell the intangible asset -it is set how will be generated profits by that intangible asset