

# **THE RESTATEMENTS IMPACT OF THE REAL ESTATE ON THE INHERITANCE STRUCTURE**

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**Abstract:** The modification of the recognition and consideration rules of the real estate in the patrimony of a company (beginning with 1<sup>st</sup> January 2015) led to new practices under the accounting aspect and under the analysis of the rates of structure. In the work, there are presented and explained the implications of accounting nature, in the first step and they are followed in a rational way by the modifications caused in the structure of the tangible elements. The practical aspects were followed and analyzed over a period of 3 years: between 2014 and 2016 being split pertinent conclusions. The decision of enclosing a real estate in one of the categories “Lands”, “Buildings” or “Investment property” is grounded in a big measure on the own accounting politics and on the professional reasoning. But, in report with this retreatment, notable modifications are registered in the tangible elements. These modifications appear in the size of the weight and also in the number of the structure rates for being calculated (determined by the introduction of new balance sheet to tangible).

**JEL classification: M41, M42**

**Key words: real estate; investment property; accounting restatements; structure rates**

## **1. INTRODUCTION**

The tangible assets are those tangible elements of the inheritance which are intended to produce goods/studies/services, to rent to the third parts or to use in administrative purposes for a long period of time. According to the object of the activity, the size of the tangible assets describes the technical and productive capacity of the societies, supporting the power outlet, the competitiveness and the business return together.

The most important element the tangible assets category is represented by real estate. According to OMPF 3055/2009 *the rights on real estate and other similar rights* had to be acknowledged in “Lands and buildings”. Starting to 1<sup>st</sup> January 2015 the acknowledgment in accountancy of the real estate suffers some modifications that are regulated by OMPF 1802/2014. According to them, the real estate acknowledged in accountancy via these elements: “Lands”, “Buildings” and “Investment property”. They

will be also reflected in the accounting balance sheet on the same principle (OMPF 123/2016). In addition, in the tangible assets group it appears also the posts, “Tangible assets of exploration and assessment of mineral resources” and “Productive biological assets”.

The new rules of the acknowledge in accountancy and respectively of consideration related to the balance sheet of the real estate elements lead to remarkable modifications regarding the heritage structure rates and regarding other economical-financial indicators determined on this base.

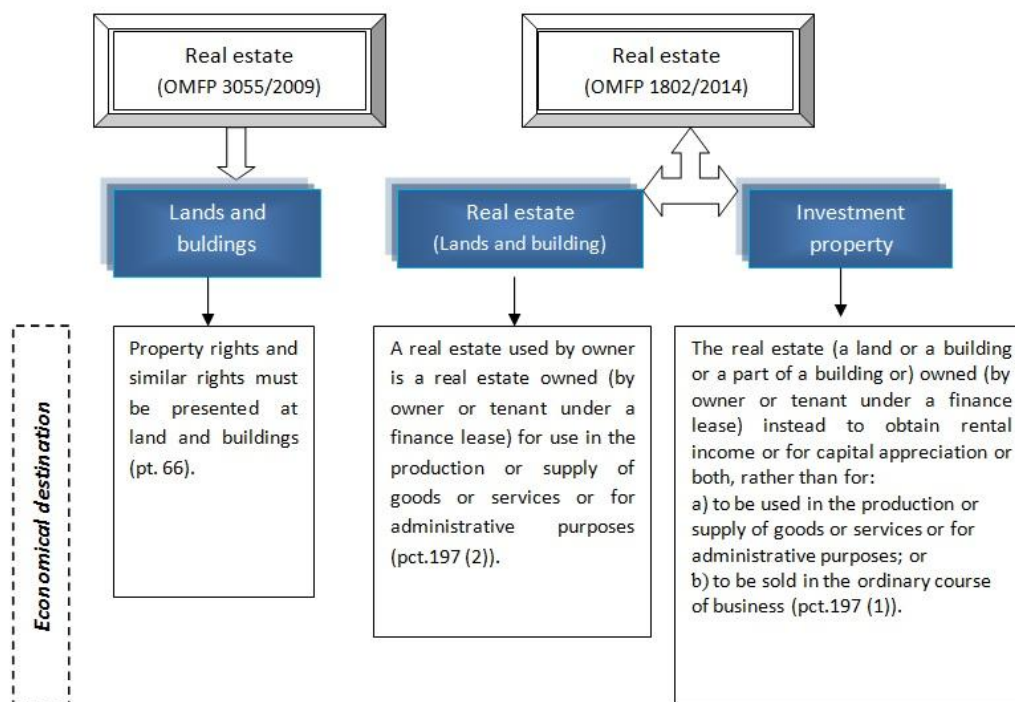
This work studies both the accounting implications according to the acknowledge and the retreatment of the real estate and their impact on the rates of heritage structure too, it being structured as follows: In the section 2 there are presented the legislative aspects regarding the real estate, making a parallel between the current and old procedures. The section 3 studies under the aspect of some practical situations, the accounting records related to the retreatment process of the real estate owned in patrimony and the records of other operations with real estate also. The sections 4 and 5 analyses the impact of the new procedures on the structure rates of the tangible assets' elements. Firstly, it is displayed the new structure of the tangible assets' group, highlighting the related rates of structure (those that are already known and the new ones, that are determined of the new balance sheet posts). The theoretical part is followed by a practice study realized for 2014-2016 period of time which shows the structure rates modifications in their number and concerning their share division of total tangible assets also. The conclusions and the bibliography are the last sections of the work.

## **2. ACCOUNTING ASPECTS CONCERNING THE REAL ESTATE**

The related financial exercise of the year 2015 marked a series of modifications at the real estate of the counting level, one of the new aspects aiming the distinct acknowledge of the real estate. In this way, the new regulations (OMPF 1802/2014) require the reflection on the balance sheet of the real estate through the elements: “Lands and buildings” and “Investment property”.

Each entity had the obligation of real estate separation, respecting the conditions established in rules and using the professional reasoning and the accounting politics drafted in this sense, applying for the first time the accounting regulations imposed through OMPF (1802/2014). In other words, an entity can own a property that on the one hand is held to rent or increase the capital and on the other hand it is used for administrative purposes or for the current economic development of the activity. If these parts can be sold or rent separately in leasing system, they will be reflected differently in accountancy, corresponding with their economic destination (field accounts 211, buildings accounts 212 and Investment property accounts 215). If the parts cannot be sold separately, the whole real estate may be recognized a real estate investment provided that a substantial part of it meets the standards in order to be classified as a real estate investment.

A comparative analysis of the new and old accounting regulations concerning the real estate acknowledge from the economical point of view id rendered in the following figure:



Source: processing after OMFP 3055/2009 and OMFP 1802/2014

**Figure no. 1 – Accounting recognition of real estate**

In the real estate category the lands and the buildings are included in the patrimony of the society and used in the current operational activity on the base of the new accounting regulation.

On the other hand, in the investment property category are included:

- lands in the patrimony of the society that are not for short term sale, but for the increase of the capital value on a long term or for a future use not established yet.
- buildings in the patrimony of the rent/owned society to be rent on one or more operational leasing contracts.

The separation of the real estate is made at the entry into force of new regulations and requires also transfers to or from investment when there are changes on their economic destination.

Thus, there are two categories of transfers:

- transfer from the real estate category used in the current operational activity (lands and buildings) in the investment property category;
- transfer from investment property category in lands and buildings category.

### 3. PRACTICE ASPECTS CONCERNING THE RESTATEMENT OF REAL ESTATE

We suppose the following study in order to highlight the accounting particularities appeared with the modifications of the accounting regulations towards acknowledge and reflection in accountancy of the real estate.

We consider that the GAMA S.A company operates its activity in the engineering and design field and also secondary trade real estate activities and hire them.

For an obvious analysis of the real estate movement we begin with the real estate situation between 01.01.2015 and 31.12.2015, so we underline that on 01.01.2015 the entity had in patrimony 3 buildings which were assigned in the tangible category and a land classified in the inventories category because it was held for sale on short term. To have a correct image on the real estate owned by the entity analyzed until 31.12.2012, we will present you in the table no. 1 the information related to the operational date, the economic destination, the input value, the economic use term and the monthly value of the amortization, where's applicable.

Simultaneous, we will keep account the fact that during the year 2015 the real estate structure changed because of new acquisitions and improvements for those already existing. Thus, in March 2015 the entity acquires a land of 500 square meters, in order to maintain it over a long period, so as to bring increases in the capital value.

In May 2015 the entity acquires a flat having 3 rooms to rent it to the third parts and in September 2015 it starts works to improve its own efforts which at the end of the year, they will be not finalized. The information concerning these new modifications will be presented in the table no. 1 too.

**Table no. 1 – The real estate situation owned by the GAMA S.A company**

No. crt	Real estate owned	Account Initial Recognition	Economic destination	Acquisition date	Input value -lei-	Economic use term	Monthly amortization* -lei-
1.	P+1 Building	212 "Buildings"	Used in own economic activity	Dec. 2011	2.500.000	30 years	6.944,44
2.	P+2 Building	212 "Buildings"	10% for own needs and 90% lease to third parties	Mai. 2013	3.000.000	30 years	8.333,33
3.	Flat - 4 rooms	212 "Buildings"	Lease to third parties	Sept. 2013	230.000	20 years	958,33
4.	Land 1000 mp	371 "Goods"	Short sale	Oct. 2014	60.000	-	-
5.	Land 500 mp	215 "Investment property"	Increasing long-term value	Martie 2015	50.000	-	-
6.	Flat - 3 rooms	215 "Investment property"	Lease to third parties	Mai 2015	170.000	20 years	708,33
7.	Improvement Works	235 "Investment property in progress"	Improvement on flat-3 rooms	Dec. 2015	20.000	-	

\* In the example, the amortization method used is linear, excepting the land which according to the regulation, it is not amortized.

According to the national accounting regulations in effect, and their own accounting politics and the professional reasoning, the entity analyzed had to

established, starting to 1<sup>st</sup> January 2015 which of the real estate owned meet the conditions for being transferred to "Investment property"(point 206), in this way:

a. The building P+1 will still remain in the "Buildings" account 212, that the entity uses in its own purposes having an use term established for 30 years, without being necessary the evaluation of a reclassification, because it is considered real estate property which is used by the possessor. Therefore, the entity will continue to amortize monthly the building, on 31.12.2015, registering in the account 2812 "Amortization of buildings"/P+1 buildings, a cumulated amortization of 333. 333, 12 lei (the monthly amortization x 48 months).

b. The building P+2, acknowledged in accountancy, in May 2013 in the "Buildings" account 212, will be reclassified in January 2015, because only an insignificant part (10%) is used in administrative purposes, 90% being hired to the third parts. Therefore, the building accomplishes the conditions to be a real estate investment, so the entity will effectuate the following records in accountancy in January 2015

<b>215</b>	=	<b>212</b>	3.000.000 lei
"Investment property"/P+2 Building		"Buildings"/P+2 Building	

Simultaneous, the cumulated amortization will be transferred (for 20 months), because of the reclassification of the building P+2, having the amount of 166.666,6 lei, so:

<b>2812</b>	=	<b>2815</b>	166.666,6 lei
"Amortization of buildings"/P+2 Building		"Amortization of investment property"/P+2 Building	

c. The flat of 4 rooms owned for rent by the third parts and recognized in accountancy in September 2015 in the "Buildings" account 212 will be reclassified on 01.01.2015 because it accomplishes the conditions to be a real estate investment. From the accounting point of view the restoration of this supposes the following records in accountancy:

<b>215</b>	=	<b>212</b>	230.000 lei
"Investment property"/Apartment 4 rooms		"Buildings"/Apartment 4 rooms	

and, simultaneous the cumulated amortization of 14.374,95 lei (15 months):

<b>2812</b>	=	<b>2815</b>	14.374,95 lei
"Amortization of buildings"/Ap. 4 rooms		"Amortization of investment property"/Ap. 4 rooms	

d. The land of 1000 square meters did not change the tangible structure on 01.01.2015, remaining recorded in stocks because its economic destination remained the sale on short term. Beginning with the financial exercise 2015, the entity acquired 2 apartments which were recognized in accountancy at Investment property as it is presented according to the accounting regulations in effect and the accounting politics of the company.

e. In March 2015, in accountancy appears the land of 500 square meters acquired in order to increase its value thus:

<b>215</b>	=	<b>404</b>	50.000 lei
"Investment property"/Land		"Suppliers for non current assets"	

f. In May 2015, in accountancy appears the apartment of 3 rooms acquired for rent by the third parts, thus:

<b>215</b>	=	<b>404</b>	170.000 lei
"Investment property" /Apartment 3 rooms		"Suppliers for non current assets"	

Until 31.12.2015 the apartment in amortized for 7 months, the amortization of this being registered thus:

<b>6811</b>	=	<b>2815</b>	4.958,31 lei
"Amortization expenses"		"Amortization of investment property" /Ap. 3 rooms	

g. Considering the entity started the improvement works of the apartment in September 2015, with own strengths and on 31.12.2015 they were not finalized, the entity registered in accountancy at the end of the exercise 2015, the receiving of these unfinished works at the cost of 20.000 lei, thus:

<b>235</b>	=	<b>725</b>	20.000 lei
"Investment property in progress"		"Income from production of investment property"	

h. In January 2016 the entity registered also in the account debit of 235 "Investment property in progress", the amount of 10.000 lei and at the end of the month it finishes the improvement works of the apartment. Therefore, the value of the apartment raises with the finalization, thus:

<b>215</b>	=	<b>235</b>	30.000 lei
"Investment property" /Apartment 3 rooms		"Investment property in progress"	

Considering the value of the apartment raised, beginning with February the monthly amortization will also raise, recalculated for a period remained to amortize (the new accounting value/the number of months remained=200.000/232 months=862,06 lei).

#### 4. THE STRUCTURE RATE ANALYSIS OF THE TANGIBLE ASSETS

Beginning with 1<sup>st</sup> January 2015, the elements "the property rights and other similar rights as they are defined by the national law, they are presented in the balance sheet at the element "Lands and Buildings" and the element "Investment property" (OMPF 1802/2014, point 137). In other words in the balance sheet format new elements appear in the tangible structure (OMPF 123/2016). Close abroad the balance sheet post "Real estate investment" (position 4), the "Tangible assets of mineral resources exploration and assessment" posts appear (position 5) and "Productive biological assets" (position 6). The element "Advances and tangible assets in progress" is divided in three different balance sheet posts: "Tangible assets in progress", "Real estate investment in progress" and "Advances".

These modifications will certainly reflect on the structure rates of the companies in the sense of the development of new structure rates in a tangible group and also in the sense of a share restoration in the total of this group.

Accounting applicable treatments to the real estate and of other similar rights are taken by OMPF 1802/2014 from the International Accounting Standards (IAS). This fact leads to an amortization of the accounting law in this domain for all types of economic entities. To facilitate the understanding the new composition of the tangible

group and through this of the calculated rates of structure we present a parallel between the tangible elements which are stipulated by OMPF 3055/2009 versus OMPF 1802/2014:

**Table no. 2 Items of tangible assets according OMPF 3055/2009 and OMPF 1802/2014, OMPF 123/2016**

OMFP 3055/2009	OMFP 1802/2014 and OMPF 123/2016
<b>II. TANGIBLE ASSETS</b>	<b>II. TANGIBLE ASSETS</b>
1. Lands and buildings (acc.211+212-2811-2812-2911-2912)	1. Lands and buildings (acc.211+212-2811-2813-2912)
2. Plant and machinery (acc.213+223-2813-2913)	2. Plant and machinery (acc. 213+223-2813-2913)
3. Fixtures and fittings (acc.214+224-2814-2914)	3. Fixtures and fittings (acc. 214+224-2814-2914)
4. Non-current assets in progress and advances for non-current assets (acc. 231 + 232 - 2931)	4. <i>Investment property (acc. 215 - 2815 - 2915)</i>
	5. Non-current assets in progress (acc. 231 - 2931)
	6. Investment property in progress (acc. 235 - 2935)
	7. <i>Tangible exploration and evaluation of mineral resources (acc. 216 - 2816 - 2916)</i>
	8. <i>Bearer biological assets (acc. 217 +227 - 2817 - 2917)</i>
	9. Advances for non-current assets (acc. 4093)

Applying the relations to calculate the structure rates of asset elements over the composition of the tangible assets group, we note the following structure rates:

**Table no. 3 The structure rates of tangible assets related to composition from OMPF 3055/2009 and OMPF 1802/2014, OMPF 123/2016**

OMFP 3055	OMFP 1802 and OMPF 123	
Tangible assets structure	Relația de calcul	Tangible assets structure
1. Rate of lands and buildings	$\frac{\text{Lands and buildings}}{\text{Tangible assets}}$	1. Rate of lands and buildings
2. Rate of plant and machinery	$\frac{\text{Plant and machinery}}{\text{Tangible assets}}$	2. Rate of plant and machinery
3. Rate of fixtures and fittings	$\frac{\text{Fixtures and fittings}}{\text{Tangible assets}}$	3. Rate of fixtures and fittings
4. Rate of non-current assets in progress and advances for non-current assets	$\frac{\text{Non - current assets in progress and advances for non - current assets}}{\text{Tangible assets}}$	-
-	$\frac{\text{Investment property}}{\text{Tangible assets}}$	4. <i>Rate of investment property</i>
-	$\frac{\text{Non - current assets in progress}}{\text{Tangible assets}}$	5. Rate of non-current assets in progress

OMFP 3055		OMFP 1802 and OMFP 123
Tangible assets structure	Relația de calcul	Tangible assets structure
-	$\frac{\text{Investment property in progress}}{\text{Tangible assets}}$	6. Rate of investment property in progress
-	$\frac{\text{Tangible exploration and evaluation of mineral resources}}{\text{Tangible assets}}$	7. Rate of tangible exploration and evaluation of mineral resources
	$\frac{\text{Bearer biological assets}}{\text{Tangible assets}}$	8. Rate of bearer biological assets
	$\frac{\text{Advances for non – current assets}}{\text{Tangible assets}}$	9. Rate of advances for non-current assets

So, the new legislative provisions concerning the composition of the group “Tangible assets” causes a number of modifications in the analysis of economic entities structure and other economic and financial indicators derived from these balance sheet items.

#### 5. THE REPROCESSING IMPACT OF THE REAL ESTATE ON THE STRUCTURE RATE

The impact of the reprocessing treatment applied to the real estate owned in the patrimony will highlight on the GAMA S.A company level taking into account all the financial and accounting particularities to this activity. Through the restoration of the “Tangible assets” balance sheet group before and after the new legislative provisions (the net values published in the balance sheet from 31<sup>st</sup> December 2015) the modification arising from the real estate reprocessing will be reflected. In other words, the modifications resulting from the accounting restatements appear between the rates structure calculated for items of tangible assets for the year 2014 and those for 2015. The transactions with the real estate subsequent to the restatement will have a less impact on the size of rates structure of tangible assets items, approximately constant.

At the end of the year 2014 (including 01.01.2015) the company GAMA S.A had lands and buildings in the patrimony in a value of 5.298.959 lei (the table no. 4) The accounting restatements executed since January 2015 determines the transfer from “Lands and Buildings” group in “Investment property” of the net values for the building P+2 and the flat of 4 rooms (according to the paragraph 3).

The purchases made during the year 2015, the modern operations started and also the monthly record of the amortization related to these economic elements have determined at the end of the year 2015 values of 2.166. 667 lei for the post “Lands and Buildings”, values of 3.152.500 lei for the post “Investment property” and values of 20,000 lei for “ Investment property in progress”.

During the year 2016, the improvement works of the apartment (registered as a property investment), fact which determines values of zero for the “ Investment property” item, are finished and registered on 31<sup>st</sup> January 2016. The other values of the tangible assets elements register an easy tendency of discount compared to the level from 2015 (table no. 4), due to the amortization process.



**Tabel no. 4 Extract from the balance sheets of the company GAMA S.A.**

<b>Balance sheet items</b>	<b>31/12/2014</b>	<b>31/12/2015</b>	<b>31/12/2016</b>
<b>II. TANGIBLE ASSETS</b>	<b>5.351.959</b>	<b>5.391.067</b>	<b>5.165.143</b>
1. Lands and buildings (acc.211+212-2811-2813-2912)	5.298.959	2.166.667	2.083.334
2. Plant and machinery (acc. 213+223-2813-2913)	37.000	36.600	36.200
3. Fixtures and fittings (acc. 214+224-2814-2914)	16.000	15.300	14.800
4. <i>Investment property (acc. 215 - 2815 -2915)</i>	0	3.152.500	3.030.809
5. Non-current assets in progress (acc. 231 - 2931)	0	0	0
6. Investment property in progress (acc. 235 - 2935)	0	20.000	0
7. <i>Tangible exploration and evaluation of mineral resources (acc. 216 - 2816 - 2916)</i>	0	0	0
8. <i>Bearer biological assets (acc. 217 +227 - 2817 - 2917)</i>	0	0	0
9. Advances for non-current assets (acc. 4093)	0	0	0

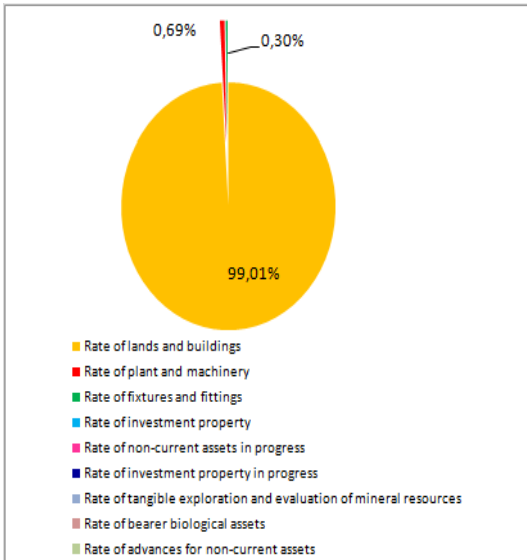
All these accounting modifications will be reflected in different values of the structure rate related to the tangible assets group. The impact of the accounting reprocessing on the structure rate is presented in the table no. 5 and in the graphic figures no. 2, 3, and 4.

**Tabel no. 5 Structure rates of tangible assets at GAMA S.A.**

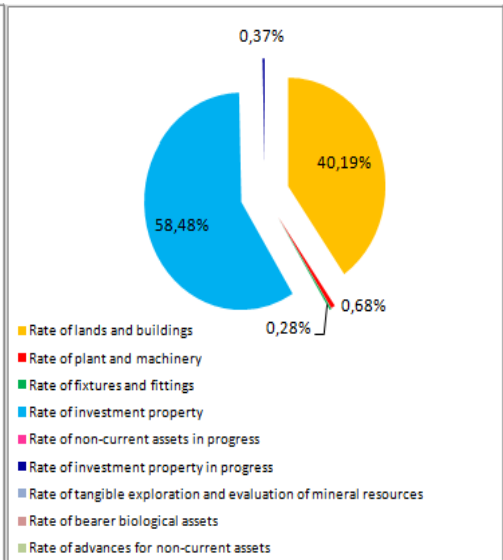
<b>RATES</b>	<b>31/12/2014</b>	<b>31/12/2015</b>	<b>31/12/2016</b>
1. Rate of lands and buildings	99,01%	40,19%	40,33%
2. Rate of plant and machinery	0,69%	0,68%	0,70%
3. Rate of fixtures and fittings	0,30%	0,28%	0,29%
4. Rate of investment property	0,00%	58,48%	58,68%
5. Rate of non-current assets in progress	0,00%	0,00%	0,00%
6. Rate of investment property in progress	0,00%	0,37%	0,00%
7. Rate of tangible exploration and evaluation of mineral resources	0,00%	0,00%	0,00%
8. Rate of bearer biological assets	0,00%	0,00%	0,00%
9. Rate of advances for non-current assets	0,00%	0,00%	0,00%

In the table no. 5, as it is reflected, the major share in the total of the tangible assets is held by PRE REPROCESSING, the *Lands and Buildings rate* (90%), at the end of the year 2014. In 2015, POST REPROCESSING, the tangible structure suffers a substantial modification compared to the previous year. The share of the *lands and buildings* decreases from 99% to 40,19% at the expense of the *Investment property rate* which now is holding 58.48% of the total tangible assets of the company which is analyzed. The shares of *the plant and machinery* and also of *the fixtures and fittings* remain below 1% in both years with an easy tendency of the discount due to the amortization process.

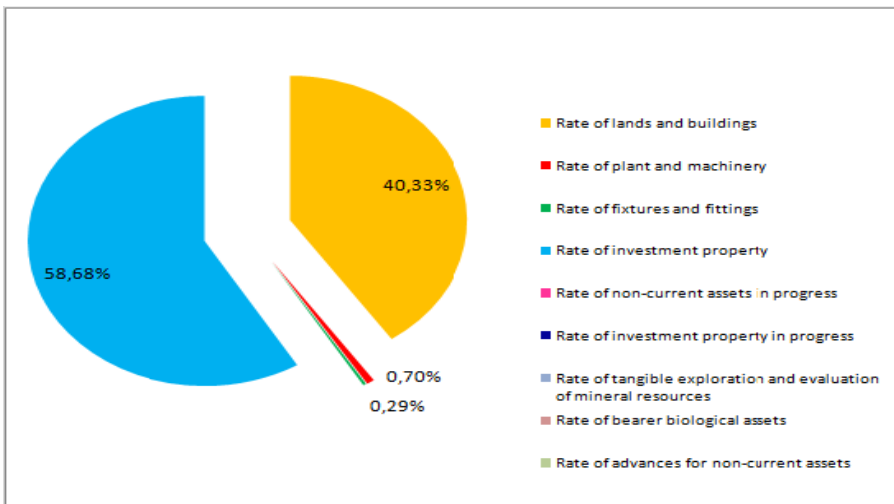
We note also, the emergence of a new structure rate, namely *the investment property in progress* for the company GAMA S.A with a percentage of 0.37% from the tangible assets.



**Figure no. 2 – The structure of tangible assets in 2014 (PRE REPROCESSING)**



**Figure no. 3 – The structure of tangible assets in 2015 (POST REPROCESSING)**



**Figure no. 4 – The structure of tangible assets in 2016**

The structure rates calculates for the year 2016 indicate us a comparable share with those from the previous year, even with an easy increase tendency for the “*Rate of lands and buildings*” (40,33%), “*Rate of plant and machinery*” (0,70%), “*Rate of Investment property*” (58,68%) and “*Rate of fixtures and fittings*” (0,29%). The easy upward movement is because of the item “Investment property in progress” which does not longer contribute to the total tangible assets in 2016.

## 7. CONCLUSIONS

The work approaches, in a sequential manner, the issue of the recognition and the reflection of the real estate in the patrimony of a company and the practical implications in terms of the recording aspect in accountancy and the analysis of the structure rates.

From the accounting point of view, once with the introduction of "Investment property" item in the structure of the real estate (since 1<sup>st</sup> January 2015), the entities passed through a reclassification process of the real estate, having as go-off the new regulations stipulated by OMPF 1802. In other words, each entity had the reprocessing obligation of the real estate owned in patrimony and their reflection in accountancy properly with the main economic destination in one of these accounts: 211 "Lands", 212 "Buildings", 215 "Investment property". We want to emphasize that the decision to restore the real estate based, to a large extent, on the accounting politics of each entity, but especially, on the professional accountant reasoning. By the side of the modifications regarding the accounting recognition in real estate OMPF 1802/2014 with OMPF 123/2016 introduced in the tangible group the "Tangible exploration and evaluation of mineral resources" item and the "Bearer biological assets" item, in addition to the balance sheet. Furthermore, the item "Advances and tangible assets in progress" (stipulated in OMPF 3055) is split according to the new provisions in the three different balance-sheet "Tangible assets in progress", "Investment property in progress" and "Advances".

All these modifications generated a notable impact over the patrimonial structure rates in the sense of the development of the new structure rates in the tangible assets group and also in the sense of the major share recalculation in the total of this group. In the example which was analyzed the major share divided between the "Lands and Buildings" item and the new item introduced "Investment property", the structure modification being produced in 2015 (POST ACCOUNTING RESTATEMENT) compared to the shares since 2014 (PRE ACCOUNTING RESTATEMENT). The share of the *lands and buildings* decreased from 99% of the total assets in 2014 to 40,19% in 2015, to the detriment of real estate investment which owns now (in 2015) 58,48% of the total tangible assets of an analyzed company. So, the restatement impact on the structure rates manifests itself mainly in the values calculated for the years 2014 and 2015 before and after the reprocessing.

In 2016 the structure rates present comparable values to those of previous year, they being affected only by the current operations.

The appearance of the new balance sheet item "Investment property" creates controversies yet, especially for the real estate lands. Thus, we consider that to establish if an acquired field is acknowledged with the item "Lands" or "Investment property" after 1<sup>st</sup> January 2015, it will need professional reasoning and clear accounting politics, in this sense. This one can constitute the topic of some future scientific researches.

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