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The Historical Cost, a Paradigm of the 21st Century

L. D. Cuc, R. Almaşi, B. C. Gomoi,

Lavinia Denisia Cuc, Robert Almaşi, Bogdan Cosmin Gomoi
Faculty of Economic Science
“Aurel Vlaicu” University of Arad, Romania

Abstract
According to the current regulations, the valuation aims several moments, namely: the input date (when the element enters the patrimony), the inventory date, the date of the financial year’s ending and, not at last, the output date (when the element leaves the patrimony). The present paper focuses on the financial year’s ending valuation moment. The valuation is one of the most up-to-date accounting issues. Choosing the valuation basis actually involves establishing the moment for registering into the balance sheet the element value, namely: the past - the input value, the present - current value, the future - present value.
Keywords: value, valuation, valuation moment, valuation basis, historical cost

Introduction

The differences that appear between the financial structures’ accounting value and their economic and financial value have numerous causes. The main factor that cannot be controlled by any valuation technique or method is time, because:

- ✓ The accounting profession works with variables that cannot be measured, but only estimated (the depreciation accounts);

- ✓ The accounting information users' vision is different in what concerns the certainty of activity's continuation (managers' strategies are projected for long or medium term, while creditors, investors or suppliers aim future gains on short term);
- ✓ Often, numerous economic events or phenomena are not quantified in time (assets' moral depreciation that leads to the depreciation of the accounting value).

Those from above are sustained by another variable, uncontrollable by the companies, namely the currency. It represents the only standard for measuring the value of financial structures. The currency, both by its purchasing power and by the exchange report, affects seriously the credibility of financial structures' value. Therefore, an instable currency cannot certainly represent a solution for quantifying the accounting value of the financial statements' structures, but the company has a set or more valuation bases available.

In the valuation process, there can be used, by the case, one or more valuation bases: the historical cost, the current cost, the embodiment value and the present value. The most used valuation base is the historical cost.

Different points of view on the historical cost

By the OMFP 3055/2009, the fiscal pressure's influence on the accounting profession is significant and this will certainly be maintained in the future, too. Taking into consideration this fact, the only valuation basis applied in our country is the historical cost.

The international accounting referential provides numerous valuation bases. The 4th European Directive proposes several alternatives for the valuation based on the historical cost, namely: the valuation based on inventories' replacement value, the valuation based on methods taking into consideration the inflation process, the valuation based on fixed or intangible assets' revaluation. The conceptual framework IASB provides both the valuation based on the historical cost and the valuation based on current values[1], but also offers a big liberty in choosing the valuation basis, the main target being the accurate image.

[1] Current cost, present value, realizable value

The historical cost method involves the presentation of the financial structures in the financial statements taking into account their real value, from the moment they enter the patrimony. From the IASB point of view, the assets' historical cost represents the amount of money paid for them or the real value, considered as the purchase or production moment. In what concerns the liabilities' historical cost, it involves the equivalents' value obtained for the debts.

The historical cost represents already a myth for the accounting valuation. The demystification of this valuation basis is absolutely necessary. Even if it delivers objective, reliable and controllable accounting information, there are many situations when the accurate image is not respected.

Thus, either the historical cost is not an optimal valuation solution as long as (Colette, Richard, 1990):

- ✓ Not all the assets are bought;
- ✓ The purchase or production cost involve a choice concerning the processing of the extra expenses;
- ✓ The activity fractionation in financial exercises involves a gradual recovery of the value of several assets (depreciation);
- ✓ The "expense", "income" or "result" concepts are subjective by themselves.

The subjectivity involved by pre-calculated or estimated accounting indicators is doubled by the uncontrollable inflation phenomenon that really affects the financial structures' value.

For example, in the balance sheet appear under valuations of non-current assets, involving a distortion of the net situation. The profit and loss account is affected by the under valuation of the non-current assets' expenses and over valuation of the financial expenses.

The defenders of this valuation basis bring the proof of the adjustments registered in the financial statements structures' accounting value. According to IAS 16, the accounting value is "the value that an asset is recognized in the balance sheet after eliminating the accumulated depreciation".

We don't contest the utility of this value adjustment' techniques, but we can bring solid objections regarding the rational applicability of the adjustment concepts. In this regard, there can be noticed the fervent debates concerning the efficiency of the assets depreciation phenomenon accounting methods using the depreciation adjustments.

These depreciation adjustments regularly involve the structures that do not suffer irreversible depreciation.

Depreciation adjustments' accounting is debatable in what concerns the assets that can suffer an irreversible depreciation. IAS 36 says that "a loss from depreciation must be recognized for a unity that generates cash only if and only if its recoverable value is lower than its accounting value".

Even if the depreciation represents the value reduction of an asset element following the depreciation by its using for a time period, following the technical progress, following the market request for that type of assets, the depreciation policy itself is often insufficient because it is very subjective, in the same time.

Therefore, truly corrective is the policy of assets' depreciation adjustments. By definition, they represent temporary value loss, compared with depreciation, which represents permanent value loss.

Thus, the law framework allows creating structures of assets depreciation adjustments only in the following situations:

- ✓ The market value of the asset decreased considerably during the period, more than it was normal as follows the time passing or its normal using;
- ✓ During the period or in the near future, there are possible significant modifications having a negative impact on the company. These modifications could refer to the technological environment, market environment, economic or judicial environment in which the company develops its activity or to the market an asset is acknowledged;
- ✓ The market interest ratios or other market investments return ratios grew during the period and it is possible that this growth to affect the discount rate used for calculating the utility value of an asset and also to decrease its recoverable value;
- ✓ The reporting company's net assets value is higher than its market capitalization;
- ✓ The proof for the physical or moral depreciation of an asset is available;
- ✓ During the period took place significant changes with a negative impact on the company or they are expected to

happen in the near future regarding the using of a certain asset;

- ✓ From the internal reporting, it is available a proof that shows up the fact that an asset's economic performance is or will be weaker than it was predicted.

As we could notice, all these recognizing criteria involve a certain degree of subjectivity, but which don't foreclose the specialists in determining more or more ingenious solutions in order to influence significantly the taxable base of the accounting result as consequence of their fiscal deductibility. Therefore, the company obtains a temporary self-financing during the financial exercise in which the adjustment appears in accounting situations. When there are certain clues that the adjustment is less of purpose, namely the value loss is no longer present, the adjustment is canceled by including it in the income and the taxable part of profit grows.

Conclusions

The answer to this accounting paradigms has been well defined in the last period, being remarked a current sustaining the using of fair value as an accounting basis of financial structures. This fair value can appear either as a current market value, or as a utility value, based on the updating of future cash flows generated by the valuated asset. Not a lot of time passed and in conservative accounting systems, such as France or Germany, these valuation bases are more and more used.

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