

PROBLEMATIC ASPECTS OF NON-CURRENT ASSETS DEPRECIATION

Problem statement. Debatable question of the depreciation accounting of non-current assets in national account system for today is the problem of combination of accounting and tax payments of depreciation charges. The comparison problem of approaches to depreciation accrual of tangible and intangible non-current assets investigates by national and foreign scientists - economists from coming into force of Provisions (standards) of accounting 7th "Fixed assets" and 8th "Intangible assets" (further P(S)A 7,8). However, existing national experience doesn't contain decisions and doesn't cancel disadvantages which take place in accounting reflection, in particular: approaches to definition depreciation object; depreciation cost; economic life of non-current assets; methods of depreciation accrual and related to that process issues.

Analysis of recent research and publications. Problems of depreciation accrual and accounting of non-current assets and fixed assets are under special attention of economic science. Research of questions of depreciation accrual and accounting devoted works of scientists - economists, in particular: Bondar M.I., Babich V.V., Golov S.F., Chumachenko M.G., Dovgopola N., Nesterenko M. and others, but still there are some issues concerning to valuation and revaluation of non-current assets, the determination of the real cost transfer of fixed assets to the newly created product and there accounting reflection that leading to false assessment of enterprise financial condition and financial results of its activity. Existence of the problems stated above determine the need for their investigation and subsequent decision.

Problem definition. The purpose of the article is investigation process of accrual and depreciation accounting of non-current assets according to the changes, caused by introduction of the Tax code in the practical field with concentration attention on the most debatable issues, which arise at comparison of accounting and tax payments.

The main material of research. In economic literature under depreciation understands objective economical process of gradual compensation of fixed assets cost during the period of their functioning in production for the purpose of compensation until the termination of its economic life [1].

Such approach is based on the definition of depreciation in law that are presented in 7th P(S)A "Fixed Assets" and the Tax Code of Ukraine (TCU) [4 s.p.14.1.3 5 p.4]. Specified legislative regulations established that depreciation is a systematic allocation of depreciable cost of non-current assets during the term of their economic life (operation). Therefore, in accounting and tax legislation there is a certain consolidated approach to the interpretation of the term "depreciation".

The object of fixed assets depreciation is the depreciable cost (except the cost of land and incomplete capital investments), which can be expressed as the initial or revalued cost of non-current assets less their residual value according to p.22 7th P(S)A "Fixed assets".

According to p.1 art.145 of TCU, fixed assets and other non-current assets are classified by 16 groups, which is much closer to accounting (p.5 P(S)A 7), prepared in accordance with the Ukrainian State Qualifier "Classification of fixed assets" in which are provided well-known 9 groups of fixed assets and 7 groups of other non-current tangible assets. Except that, TCU identifies subgroups for separate groups of fixed assets. For example, in group 3 "Buildings, constructions and transfer devices" for tax purposes separately identified: buildings; constructions; transfer devices.

According to the p.6 of subparagraph 4 of paragraph XX TCU, to definition the list of fixed assets, other non-current and intangible assets into groups for the purpose of depreciation accrual uses inventory data, conducted as of 1 April 2011. Attention is drawn to the fact that the depreciable cost for each item of fixed assets, other non-current tangible assets and intangible assets are determined as the initial (revalued) considering capitalized expenses on modernization, modification, completion, retrofit, renovation and other improvements and also accumulated depreciation for accounting data as of 01.04.2011. Thus, revalued cost of fixed assets not includes the sum of revaluation of fixed assets, carried out after 1 January 2010 [4].

Considering the given norm above the total cost of all groups of fixed assets according to accounting will be less than the total cost of all groups of fixed assets according to tax payments on 1 April 2011. In that case, a temporary tax difference as result from such comparison depreciates in tax payments as separate object within three years by straight-line method [4].

According to the p.23 7th P(S)A "Fixed assets", depreciation charges during economic life (operation) of object which establishes by the enterprise (in the directive act) in recognition of this object by an asset (entry on the balance sheet) and stops for the period of its reconstruction, modernization, completion, retrofit and conservation [5].

In TCU such approach is also recognized, but it is noted that economic life of fixed assets object can't be less minimum acceptable term established for each tax group of fixed assets in p.145.1 art.145 of TCU. In TCU it is outlined that economic life of object is established in order of the enterprise and at determination of such term taken into account: the expected usage of object by the enterprise considering its capacity or performance; physical and moral deterioration that are expected; legal or other restrictions concerning terms of object usage and other important factors. The economic life of fixed assets object is reviewed if the expected economic benefits of its usage will change, but it can't be less than specified in p.145.1 art.145 of TCU. Depreciation of object is charged, according to the new economic life, since the month following after the month of economic life change (except for the depreciation production method).

From the point of view of Bondar M.I. and Babich V.V. the positive in tax policy of fixed assets depreciation that it is determined minimum economic life of object groups, and such approach is advisable to apply in depreciation accounting accrual. They consider that the design of economic life (operation) of object in order of the enterprise is inexpedient, as such information is provided in the Delivery-acceptance act (internal displacement) of fixed assets of typical form №FA-1, and the act is approved by the director [1].

It is of importance to note, that there are no difference between the reflection in the accounting and tax payments of operations with depreciation accrual of fixed assets until the residual value of object achieve its liquidation value. However, it should be remembered that during the commissioning of fixed assets, it is necessary to determine reliably the time of their exploitation, physical or moral deterioration at the time of withdrawal from operation and also their fair value or CMV cost, which will be received by the enterprise from liquidation of fixed assets object. In this case to equate the residual value to zero is impossible, because, for example, the usage of the degressive depreciation method assumes non-zero residual value (otherwise the value of the fixed assets object will be fully depreciate within one year, which breaks a minimum economic life).

It is of importance to note that the fixed assets objects, which are under reconstruction, modernization, conservation aren't subject of depreciation.

The important point is that the expenses on carrying out capital repairs, reconstruction, modernization and other types of improvement of fixed assets are subject of depreciation only on the condition that their value exceeds 10 percent of total balance cost of all fixed assets groups, which are subject of depreciation at the beginning of fiscal year. In determining depreciation according to requirements of P(S)A such restrictions doesn't exist and it leads to appearance of tax differences. From the point of view of Bondar M.I. and Babich V.V. such approach causes appearance of tax differences in the sum of depreciation charges and variations in determination of fixed assets cost. They note that considering the essence repair, reconstruction, modernization, it is necessary to recognize that to differentiate definitely such types of works are impossible and explained by the fact, that the new types of materials, their cost and quality leads to increase the future economic benefits, which are originally expected from usage of object, i.e. usage of approach of the past is not actual as the cost of capital repairs can exceed the cost of the object for today, and transfer of its cost on again created product will carry out during the next periods. Therefore, there is a need of revision of determination of balance cost of fixed assets taking into account costs of carrying out different types of repair. In this case, the usage of expenses cost border on carrying out repair and its interrelation with fixed assets object cost is expedient and more reasonable in comparison with existing approach [1].

Depreciation accrual methods in tax payments completely correspond to the accounting methods, that listed in p.26 7th P(S)A "Fixed Assets", in particular: straight-line method, degressive depreciation method, accelerated degressive depreciation method, cumulative method and production method. The depreciation method at the enterprise is defined in order of accounting policies and can be reconsidered in case of change of an expected way of receiving economic benefits. Depreciation charge by the new method begins from the month following after the month of the decision to change the method of depreciation [5].

Depreciation of other non-current material assets such as temporary (non-title) constructions, the inventory container, rental items are charged with usage of straight-line or production methods both in accounting and tax payments.

Low-value non-current assets and library funds according to p.27 7th P(S)A and s.p.145.1.6 art.145 of TCU have the same process of depreciation accrual. Identical to the fixed assets in TCU the minimum allowable economic life for a group of other non-current material assets are set.

For the purpose of depreciation tax accrual intangible assets are combined into six groups, according to which established term of the right of use. The 8th P(S)A "Intangible Assets" defines the process of depreciation accrual of intangible assets in accounting. Depreciation accrual based on its economic life (other than goodwill) [6].

For intangible assets economic life are established in recognition of this object by an asset (entry on the balance sheet) and economic life of similar assets, moral deterioration and other factors thus are considered.

From the point of view of Bondar M.I. and Babich V.V. the minimum allowable economic life of other non-current material assets should be used in determining the economic life for the purpose of intangible assets depreciation in accounting, which is caused by making changes to 8th P(S)A "Intangible assets" [1].

Assets with indefinite economic life which are on the balance of the enterprise are the assets for which enterprise aren't defined restrictions of term during which economic benefits from usage of these intangible assets will be received.

Intangible assets with indefinite economic life at the end of every year are estimated on existence of signs of uncertainty of restrictions for economic life and in the absence of such restrictions established economic life.

It should be noted that depreciation accrual of intangible assets is carried out with the same methods which are used for the fixed assets depreciation according to s.p.145.1.1 art.145 TCU [4]. Unlike fixed assets to intangible assets, it is usually impossible to determine the liquidation value of the intangible asset. The exceptions exist only with respect to such assets on which the liquidation value can be determined on the basis of information, that existing in active market. At the end of the reporting year economic life and depreciation method are reviewed if conditions of object usage change.

So, it must be stressed, that 8th P(S)A "Intangible assets" is more detailed for process of depreciation accrual of intangible assets and the most of these moments are advisable to take into account to determine tax depreciation, however according to scientific economists the tax legislation also contains some important aspects of technique of intangible assets depreciation which should be considered in accounting.

Considering all the above mentioned statements, it is possible to identified certain positive features in harmonization of accounting and the tax legislation: depreciation is charged monthly; almost absolute coincidence in classification of fixed assets and intangible assets in accounting and tax payments; methods of depreciation accrual identical in accounting and tax payments; initial cost of fixed assets belongs to depreciation less liquidating cost; depreciation is charged over the economic life, beginning with the month following after the month of the introduction of fixed assets in operation and stops in period of reconstruction, modernization, construction, retrofit and other forms of improvement and conservation; the depreciation method if necessary can be reconsidered; identical structure of initial cost of fixed assets in accounting and tax payments (in particular included in the accounting in the initial value of expenses for dismantling, displacement of object and bring the land on which it is located, in condition suitable for further effective use).

However, besides positive features, scientists mark out also negative features, which arose during the last changes (fig. 1).

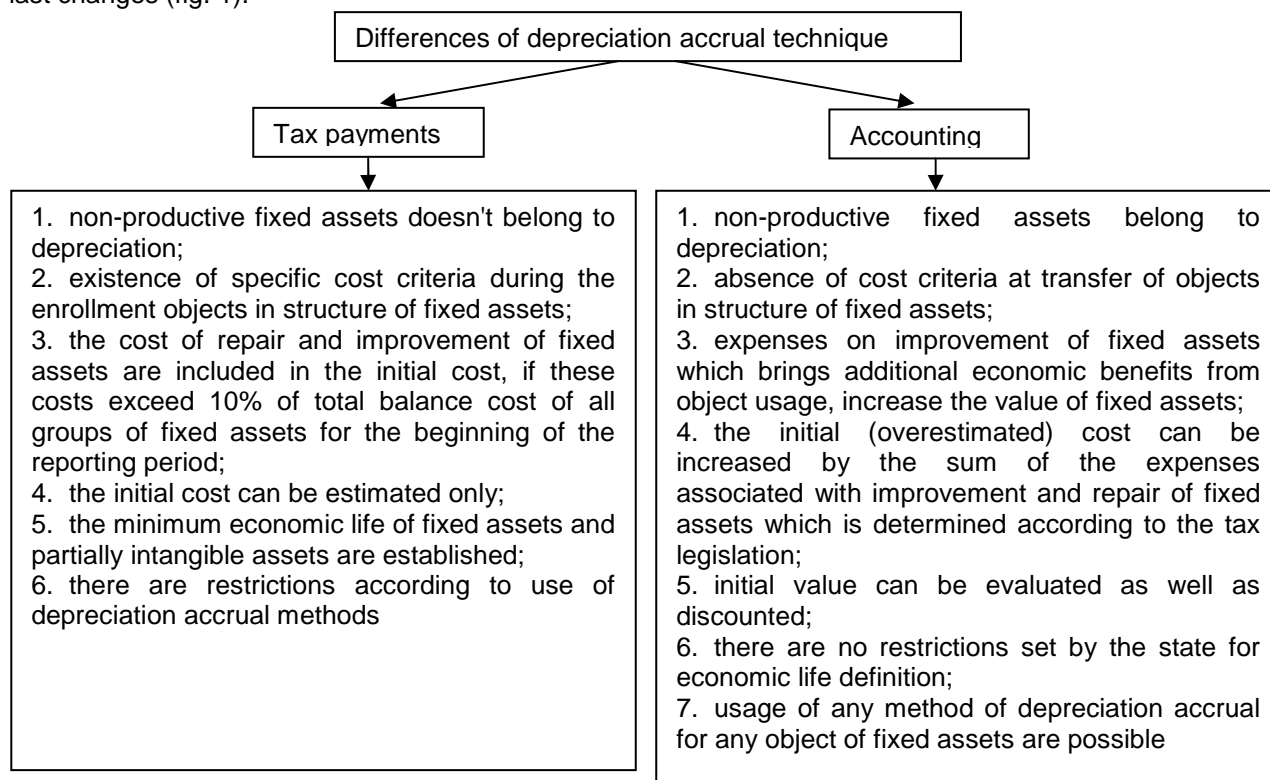


Fig. 1. Differences of depreciation accrual technique

Source: Compiled by the authors based on [1; 7; 8]

Estimated the current legislation, it should be noted that the considerable attention from scientists and current government are paid to the process of harmonization of accounting and tax payments. However existence of the distinctions, that existing in depreciation charge technique of non-current assets testifies that not all problems are solved.

Conclusions and further research. The conducted researches on questions of depreciation accrual of fixed assets, other non-current material assets, intangible assets and ensuring their system reflection in accounting and tax payments allow to draw conclusions that considerable level of harmonization are achieved, in particular: existence of almost absolute coincidence in classifications of fixed assets and intangible assets, identity of depreciation accrual methods, and also the solution of many controversial questions concerning to depreciation accrual technique. However, there are differences that can be eliminated by making reasonable changes into the accounting and tax regulations, in particular: setting or removing restrictions on the economic life of fixed and intangible assets and depreciation methods; defining an accurate regulation of non-production fixed assets depreciation and process of revaluation and impairment of their initial cost.

References

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Hutsalenko L.V., Bozhok I.I. PROBLEMATIC ASPECTS OF NON-CURRENT ASSETS DEPRECIATION

Purpose. The purpose of the article is investigation process of accrual and depreciation accounting of non-current assets and highlighting the most debatable issues, which arise at comparison of accounting and tax payments.

Methodology of research. In research process, general scientific and special methods of research are used, in particular: induction and deduction – to determine general trends in the depreciation accounting of non-current assets; observation – to determine the current state of depreciation accrual technique of non-current assets; logical analysis – to identify problem areas and improve depreciation accrual technique and others.

Findings. The current state of the process of accrual and depreciation accounting of non-current assets are characterized. Problematic aspects of depreciation accounting of non-current assets are founded, in particular: depreciation of expenses for capital repair, reconstruction, modernization and other improvements of fixed assets; minimal useful lives of fixed and intangible assets; limits for depreciation methods usage. Defined the positive features and some differences of depreciation technique in accounting and tax payments and ways of their removal are suggested.

Originality. Specified theoretical aspects of depreciation accrual technique of non-current assets and designed practical recommendations for its improvement.

Practical value. The received results of research are directed on drawing attention on the revealed disadvantages in operating legislative norms concerning depreciation accrual of the non-current assets which correction will positively affect at depreciation accrual technique generally.

Key words: depreciation, non-current assets, fixed assets, tax payments, accrual.