

ACCOUNTING FACTS IN THE FIELD OF ROMANIAN FORESTRY

Sorin-Constantin Deaconu¹

Nicolae Todea²

Liliana Marcela Cioara (Durgheu)³

ABSTRACT: *Within the article we tackle aspects concerning the forestry activity undertaken by certain entities in Romania. We present some practical applications concerning the sale of firewood, standing timber and logs, because every sale category has certain accounting characteristics.*

Key words: accounting, forestry, incomes, firewood, standing timber, log

JEL codes: M 41, O 10

Introduction

In the older legal practice, decisions were taken by which it was argued that the concept of agriculture had a broader understanding, including floriculture, horticulture, forestry and cattle breeding (the Court of Cassation, section I, decision 121/1921). This decision of the Court of Cassation, as well as other views of the specialized literature represent the reason for which in this paper, we will also tackle some aspects concerning forestry.

Literature review

The famous classic economist William Petty has made in his studies the following observation: *Labour is the Father and active principle of wealth, as Lands are the Mother*. This statement points out that the land represents a resource able to bring substantial economic benefits if it is rationally used in the working (exploitation) process.

At world level, in the present, it is clearly shown a trend for an international harmonization of all countries' accountings. This trend is supported by IASB through its recommendations. Through its elaborated Standards, IASB contributes to generate at international level of financial information, more easy to be compared, even on forestry field. This thing can only be accomplished by using of a unique accounting language.

We have used as reference material, studies and articles quoted in the following international databases: Emerald, Research Papers in Economics, Directory of Open Access Journals etc. A part of these studies are:

- Gamini Herath, *Sustainable development and environmental accounting: the challenge to the economics and accounting profession*, International Journal of Social Economics, 2005, p. 1035-1050. The paper in question is quoted in Emerald international database and may be consulted at the following web address: <http://www.emeraldinsight.com/Insight/viewContentItem.do;jsessionid=598E74701BAF2D7EF6056FC5A594A257?contentType=Article&contentId=1528597>. The purpose of

¹ „1 Decembrie 1918” University of Alba Iulia, The Faculty of Sciences, 5 Gabriel Bethlen Street, Alba Iulia, deaconu_sorin@uab.ro

² „1 Decembrie 1918” University of Alba Iulia, The Faculty of Sciences, 5 Gabriel Bethlen Street, Alba Iulia, ntodea@uab.ro

³ „Babeş-Bolyai” University of Cluj-Napoca, The Faculty of Economics and Business Administration, 58-60 Teodor Mihali Street, ldurgheu@yahoo.com

this paper is to examine the role of the natural resources accounting for development's support. The natural resources accounting plays an important role because every nation assesses macroeconomic indicators, one of them, with great meaning being the Gross Domestic Product;

- Paul Pacter, *What exactly is convergence?*, International Journal of Accounting, Auditing and Performance Evaluation, 2005, vol. 2, p. 67-83. The article is quoted in Research Papers in Economics international database and may be consulted at the following web address: [http://econpapers.repec.org/scripts/search.asp?ft=What +exactly +is+ convergence](http://econpapers.repec.org/scripts/search.asp?ft=What+exactly+is+convergence). The paper studies the history of “convergence” in the context of International Accounting Standards elaboration. The article mentions the fact that the International Accounting Standards demand that the data offered by the entities to have a better quality, to be transparent and comparable;
- Juan Carlos Cordoba, Marla Ripoll, *Development Accounting*, article quoted in Research Papers in Economics international database and may be consulted at the following web address: <http://ideas.repec.org/p/red/sed004/325.html#related>. This paper wants to estimate an accounting framework in order to perform comparisons at international level considering the characteristics met in the poor countries.

Research methodology

Methodology is a complex word originated from two Greek words *methodos* - method and *logos* – science, meaning in a free translation “the science’s method”, the science to conceive, select and use the method in order to investigate the economic phenomenon.

The research methodology represents both the theory and practice of the methods, respectively an activity through which the essence, nature, status, definition, classification etc. is studied in order to create explicative patterns.

The documentation work was performed by:

- Revising of the specialty literature. In this regard we have made the accent on the research work, on the speciality literature documentation related to the previous researches and also on documentation concerning the activity of different economy normalization organisms. Our research work based on the speciality literature, on the analyse of the financial reporting standards has as aim to go beyond the personalization of the accounting registration opinions, hypothesis and models in order to test the reflecting of the theoretical concepts over the practical work in the forestry.
- Studying the normative and other documents. This method involves analysing the documents in question using some parameters set out in relation to the scope and the objectives of the research. For the present paper were studied documents such as: law no. 46/2008 on the Forestry Code, The Official Gazette of Romania, issue 238/2008, order no. 1752/2005 for approval of accounting regulations in compliance with the European directives, The Official Gazette of Romania, issue 1080/2005.
- The scope of the study was to highlight the viewpoint of the Romanian lawmaker and eventually to bring some improvement proposals for the present legislation applicable to forestry.

Results and discussion

According to Law no. 46/2008 on the Forestry Code, **forestry** represents all the objects and actions with respect to becoming familiar with the forest, to creating and taking care of it, harvesting and rational capitalization of its products, first timber processing, as well as organizing and managing the entire process of forest administration.

The notion of “forest” includes:

- The forests included in the forestry arrangements on January 1, 1990, as well as those included afterwards, according to the provisions of the law;
- Forestry safety curtains;
- Savines;
- Wooded pastures with a density higher or equal to 0.4 ha, calculated only for the area actually covered with forest vegetation.

The wooden products specific to the forestry fund are represented by:

- Main products, resulted from regeneration felling of the forests;
- Secondary products, resulted from care and growth felling of the trees;
- Accidental products, resulted from the action of destabilizing biotic and abiotic factors or of legally approved deforestations;
- Hygiene products, resulted from the normal process of natural disposal.

For an analysis of the procedure of registration in accounting of the sale of timber we will present some practical applications and we will act on the issuance of comments and findings.

APPLICATION	
No.1	The Geoagiu Forest District sells to individual buyers 10 m ³ of firewood, worth of 112 lei, VAT 19%.
Example	General information about the Geoagiu Forest District: The Geoagiu Forest District is a part of the Deva Forest Administration within the National Forest Administration – ROMSILVA. Administratively speaking, the forest district's area is situated in the Hunedoara county, the forests being located near the villages of Beriu (7,345.90 ha), Romos (235.80 ha) and the city of Orăștie (79.10 ha).
Solved	
Sale of firewood	

- The registration of the sale of firewood in the district's accounting:

4111 "Clients"	=	%	133.28
		701 "Incomes from the sale of finished products"	112.00
		4427 "Collected VAT"	21.28

Finding: the sale of firewood is registered in accounting as an income, respectively an income from the sale of finished products. In this case, although the 701 account (Incomes from the sale of finished products) is used, the discharge from administration is not carried out, because the obtained income has also not been emphasized. We ask the following questions: is the 701 account (Incomes from the sale of finished products) properly used in the forest district's accounting at the time of the sale of firewood? Is it not necessary to register the obtained income from its own production if we apply professional reasoning? In the case that the obtained income from its own production is not registered, we can infer that no efforts are made by the forest district to acquire the timber.

APPLICATION	
No.2	The Geoagiu Forest District sells Losan România Ltd. standing timber, 175 m ³ worth of 80,618.04 lei.
Example	
Solved	
Sale of standing timber	<ul style="list-style-type: none"> • The registration in the forest district's accounting of the sale to Losan România Ltd. of standing timber:

4111 “Clients”	=	701 “Incomes from the sale of finished products”	80,618.04
-----------------------	---	---	-----------

Finding: Also in the case of selling standing timber, the 701 account (Incomes from the sale of finished products) is used in case of selling, and the discharge from administration is not carried out in this case either. The only difference from the sale of firewood, is the reverse VAT charge.

APPLICATION	The Geoagiu Forest District sells Carpatina Ltd. logs, 59.65 m ³ worth of 14,912.50 lei (sale price 250 lei/m ³). The logs are registered at the worth of 63.44 lei/ m ³ .
No.3	
Example	
Solved	
Sale of logs	

- The registration in accounting of the sale of logs to Carpatina Ltd.:

4111 “Clients”	=	701 “Incomes from the sale of finished products”	14,912.50
-----------------------	---	---	-----------

- The discharge from administration (59.65 m³ x 63.44 lei/ m³):

711 “Stock variation”	=	345 “Finished products”	3,784.20
------------------------------	---	--------------------------------	----------

Finding: Although the sale is also done using the 701 account (Incomes from the sale of finished products), in the logs’ case, the discharge is carried out.

We notice a different accounting handling in the following cases:

- In the case of firewood, the sale is done using the 701 account, without registering the discharge from administration;
- In the case of the standing timber, the sale is also done using the incomes from the sale of finished products account, but without the discharge from administration with the mention that in this case the reverse VAT charge applies. We believe that the reverse VAT charge should not have been introduced in the case of timber, because both the forest districts and the business enterprises are “on the safe side”, legally speaking, in what concerns VAT reimbursement with the state budget; there is a possibility that massive forest felling could have a negative impact on the environment. This is why we infer that a tax measure can have major influences over the social and economic environments;
- The sale of logs is subjected to reverse VAT charge, but in this case, the discharge from administration is carried out. We find that the tax laws in the field of forestry are to the forests’ detriment, encouraging massive forest felling through very large incomes, without any significant effort.

APPLICATION	Stasfor Ltd. buys standing timber worth of 906.80 lei with invoice no. 08013161/10.06.N issued by the Sebeş forest district. The purchased timber is sold to Gardian Ltd. for 3,896.90 lei.
No. 4	
Example	General information about Stasfor Ltd.: The company's main social scope is forestry and other forestry related activities. The company was set up as a microenterprise and paid income tax. On January 1, 2008 the company started paying an income tax.
Solved	
Purchase of standing timber	

- The purchase of standing timber:

$$\underline{\underline{301 \text{ "Raw materials"}}} = \underline{\underline{401 \text{ "Suppliers"}}} \quad 906.80$$

- The sale of timber:

$$\underline{\underline{4111 \text{ "Clients"}}} = \underline{\underline{701 \text{ "Incomes from the sale of finished products"}}} \quad 3,896.90$$

- Discharge from administration:

$$\underline{\underline{601 \text{ "Expenses with raw materials"}}} = \underline{\underline{301 \text{ "Raw materials"}}} \quad 906.80$$

Finding: The presented practical example shows that the company which buys and sells the timber is registered as raw material on purchase and as income from the sale of finished products on sale. We think the registration as raw material on purchase is practically an anomaly, because the goods will be sold as they are and in this case they should be considered merchandise. Also, the income should be emphasized using the 707 account (Incomes from the sale of merchandise). Following debates with the company's management, the use of the 701 account (Incomes from the sale of finished products) is justified as follows: the need to contract bank loans causes the banking company to force the trading company to use an account for incomes from the sale of finished products to prove in writing that Stasfor Ltd.'s social scope is production. Thus, the reality is distorted, because the company's social scope is not production, but the marketing of timber purchased from the forest district.

Conclusions

The following questions can be asked: were the actions of the company Stasfor Ltd. correct, using professional reasoning? Can the company "cosmeticize" the financial situation depending on all of the users' "options" of accounting information? Is any legal regulation being violated in the above presented situation?

Thus, in reality, it may occur that in order to receive a bank loan, the trading companies find themselves compelled to turn to these "cosmeticized accounting information". Thus, an exact report is no longer available and there is a risk that the companies that really are going bankrupt could receive bank loans. Hence, at an accounting information user's "command", the company "improves" its profit-and-loss account in order to gain certain benefits, respectively the possibility of contracting bank loans.

From the point of view of the International Accounting Standards/International Financial Reporting Standards, we notice that there is no regulation applying in forestry. Therefore, we recommend a set of evaluation rules to be drawn up, a set of definitions that can lead to information useful to the financial statements addressees.

Acknowledgements

We would like to specify that both a theoretical and an applied research were carried out before the paper was finalized. For the theoretical part, we made reference to a series of laws in force, but we also turned to the specialized literature, including the international rules set by the IASB. The applied part of the research took place at a series of companies and public institutions, including: The Geoagiu Forest District which is part of the Deva Forest Administration within the National Forest Administration, the company Stasfor Ltd. etc., which we would like to thank for their availability to grant us a series of necessary data in our scientific endeavour.

References

1. *Law no. 46/2008 on the Forestry Code, The Official Gazette of Romania, issue 238/2008.*
2. *Order 3512/2008 regarding financial-accounting documents, The Official Gazette of Romania, issue 870bis/2008.*
3. *Law no. 38/2006 regarding the approval of the Emergency Ordinance no. 139/2005 regarding the forest administration in Romania, The Official Gazette of Romania, issue 206/2006.*
4. *Order no. 1752/2005 for approval of accounting regulations in compliance with the European directives, The Official Gazette of Romania, issue 1080/2005.*
5. *Government Decision no. 85/2004, for approval of the Regulation for sale of wood mass by the owners of public property forest fund, to the traders, The Official Gazette of Romania, issue 121/2004.*
6. *Law no. 571/2003 regarding the Romanian Fiscal Code with the later changes and additions, The Official Gazette of Romania, issue 927/2003.*
7. <http://www.insse.ro/cms/files/pdf/ro/cap14.pdf>, accessed on 24 August 2009.
8. Court of Cassation (1923), section I, decision 121/1921, "Panadectele române": 45.
9. *** *International Financial Reporting Standards including the International Accounting Standards and their interpretations on 1 January 2006* (2006), CECCAR Publishing house, Bucharest.
10. *** The Body of Expert and Licensed Accountants of Romania (2004), *Guide for understanding and applying the International Accounting Standard no. 41 "Agriculture"*, CECCAR Publishing house, Bucharest.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.