This paper approaches theoretical problems regarding the definition and the types of subsidies according to the European Directives and the International Accounting Standards. The paper presents the accounting treatment of subsidies, the accounting policies and their acknowledgement in the components of the financial reports of the economic entities. The purpose of the paper is to underline the differences in accounting treatment of subsidies, as well as the necessity and importance of their correct presentation.

Keys words: subsidies, financial reports, accounting, presentation, disclosure.

JEL codes: M41

Introduction

The theme of this paper is of the day since more and more economic entities, from various activity branches request government subsidies, situation which leads to the necessity of establishing accounting policies regarding the subsidies adapted to the specificity of the activity. Government subsidies can be: subsidies related to assets and subsidies related to incomes, or, in other words, subsidies for investments and subsidies for exploitation. The subsidies related to assets regard the acquisition, the construction or the procurement in another way of assets for a long term. The subsidies related to incomes comprise other subsidies, different from the ones for assets, which regard sustaining the exploitation activity.

The acknowledgement of subsidies by a firm takes place when it is certain that the latter respects the conditions for granting them, the subsidies shall be received with certainty, and their size can be determined.

IAS 20 presents two approaches regarding the acknowledgement of government subsidies (in the financial reports), and namely:

- an approach from the point of view of the capital (balance sheet approach), when a subsidy is registered directly at one’s own capitals;
- an approach from the point of view of the income (income - based approach), according to which a subsidy is included in the incomes during one or more periods of administration and not directly at one’s own capitals.

There are pro and con arguments regarding the two approaches. The arguments for the direct registration of subsidies at one’s own capital take into account the fact that since no reimbursement is requested, the subsidies must be credited directly to the shareholders’ interest, namely at one’s own capitals. Then, it would be inadequate to acknowledge the subsidies received directly in the profit and loss account, since they are not earned, but represent stimulants accorded by the government without afferent costs. The arguments for the registration of
subsidies to incomes in time justify the fact that subsidies represent entries from a source, other than the shareholders, which means that they must not be credited directly to the shareholders’ interest, but must be acknowledged as incomes in order to be correlated to the associated costs. Then, subsidies are rarely for free, in the sense that the company obtains them in exchange for the compliance with the required conditions and meeting the obligations to be achieved. Moreover, subsidies can be considered an extension of the fiscal policy, thus they must be registered with the incomes, in the same way in which the taxes and dues are registered under the form of expenses (smaller, in the case of fiscal facilities).

The standard recommends the second approach (result – based), requiring the acknowledgement of the subsidies to the incomes in the periods in which they can be connected with the afferent expenses, in order to compensate them, and not directly in one’s own capitals. Regularly, the identification of the costs covered by the subsidies and of the afferent periods can be easily determined. Thus, the assignment of subsidies to incomes must be performed on a systematic basis, since the registration of subsidies directly to the incomes, once they are received, would be a violation of the engagements accounting (when we are not dealing with already registered expenses). Only in the situation in which a government subsidy is received as compensation for expenses or losses already incurred, the subsidy is acknowledged as income in the period in which it becomes a debt.

The presentation of subsidies in balance sheet

As for the accounting of subsidies related to assets, the standard provides two ways, and namely:
- either as subsidy pointed out in group “Subsidies” and gradually transferred to incomes, in which case it appears in the balance sheet in the category of incomes registered in advance;
- or it is deducted from the accounting value of the asset subject to subsidy, and the reduced value will be amortized and the benefit related to the subsidy will be acknowledged directly, by registering an expense reduced with the amortization.

Notwithstanding the modality of accounting, the presentation in the balance sheet leads to the same results. In other words, subsidies are treated as current debts in the financial reports.

In the case in which the first method is applied, at the moment they are received, subsidies for investments are registered in the account “Subsidies for investments” and are going to be acknowledged as incomes on a systematic basis, during the periods needed in order to correlate them with the afferent costs that these subsidies will compensate. More precisely, subsidies connected to amortizable assets are acknowledged as incomes during the periods and in the proportion in which the amortization of these assets is acknowledged. The subsidies related to non-amortizable assets, such as lands, for instance, are acknowledged as incomes at the latest in the moment of ceding them or along the way, if the firm which has received the subsidy is conditioned by compliance with some quantifiable obligations. It is the case of subsidization of an acquisitioned land, on which the firm is obligated to erect a building. In this situation, the subsidy shall be acknowledged as income for the duration of useful life of the construction. In the case in which the second method is applied, the accounting value of the asset is diminished by the size of the subsidy in order to reflect the net (real) effort of the company. If at some point one considers that the value of the assets does not reflect a real value, then one can decide their reevaluation.

The presentation of subsidies in profit and loss statement

Subsidies related to incomes which are going to be received as compensation for expenses or losses already incurred, without any other afferent future costs, are acknowledged as income when the right to receive the subsidy is registered. There are however, subsidies related to incomes which are acknowledged as incomes in time, being previously registered as incomes in advance. Moreover, IAS 20 specifies that one can also deduct from the expenses the subsidies
related to incomes. As for the presentation in the results account, the subsidies related to incomes can also be presented in the financial reports, more precisely in the results account directly as incomes as well as deduction from the size of the expenses which they cover (all the other subsidies).

The presentation of subsidies in cash flow statement
The acquisition of the assets and the receiving of the subsidies related to them can cause major fluctuations in cash-flow of an entity. For this reason and in order to illustrate the gross investment in assets, that moves are often presented like separated elements in cash-flow statements without relate with the fact that the subsidies is or not deducted from the asset related to that, in the scope of the drawing up the balance sheet.

The presentation of the information related to subsidies in the notes to the financial reports and their interpretation
In relation with government subsidies, an enterprise must present in the financial reports information reflecting:
- the methods of acknowledgement and presentation adopted;
- the nature and size of government subsidies acknowledged in the financial reports, as well as a specification of the other forms of government assistance which have brought direct benefits;
- the unmet conditions related to a government subsidy which has been acknowledged in the financial reports.
From the point of view of the financial analysis and of the interpretation of the information presented in the financial reports regarding government subsidies, the two ways of accounting (regarding subsidies related to assets) generate the same results at the level of synthetic indicators, such as: the permanent capital, one’s own capital, total assets. However, at the level of the rate of profitableness of immobilized assets, for instance (net profit/ immobilized assets), the results are different according to the accounting treatment of subsidies (deduction from the value of the immobilizations or the gradual passage to incomes; bigger in the first case and smaller in the second). In order to reach the same results, the financial analyst should reprocess the information regarding the value of immobilized assets.

Study regarding accounting policy about subsidies
The right presentation in financial report of the information about subsisdies is based on accounting policies applied by economic entities.
The accounting policies are established by the entities who have agriculture as object of activity and request subsidies, according to the type of subsidy and to the legal conditions of awarding them.
Another criterion that is taken into account when establishing accounting policies, is the observance of the accounting principles. The most applied principle is the principle of prevalence of the economic over the legal. This principle is materialized in the fact that one may establish accounting policies which provide the registration of subsidies in accounting at the date of filing the request for award of the subsidy, the entity considering that it fulfils the legal conditions, being a factual situation, and after the approval of the subsidy the lawful situation will intervene, namely receiving the subsidy.
Also, the principle of independence of the exercise must be observed and applied with professional reasoning. We meet difficulties in applying it at subsidies related to the incomes, from which a part is destined to cover some directly identified expenses. It is known that the someones activities, for example, activity in agriculture has a specific character, due to seasoning, cyclicity, on many occasions a time discrepancy occurs between the period in which the expenses are collected and the period in which the effective incomes are made.
To track whether the presented theory is applied in practice, we surveyed entities in agriculture, which are beneficiaries of the present period of several categories of subsidies. In this paper we will refer to the enforcement of accounting policies according to European directives, respectively the ones stated by O.M.F. 1752/2005, because the companies that we considered in the study apply these regulations.

Hereon we will present categories of subsidies that are awarded to entities with activities in agriculture and the accounting policies applicable to each category. It is known that the subsidies are classified from accounting point of view in two categories:
- subsidies related to assets (subsidies for investments for awarding of which, an entity must buy or build immobilized assets);
- subsidies related to income (subsidies for exploitation, other than the ones regarding the immobilized assets).

More specifically, subsidies related to depreciable assets are acknowledged as incomes during the periods and in the ratio in which the depreciation of these assets is acknowledged. We will mainly refer to the subsidies related to incomes which involve more attention.

From studying the existing laws regarding the granting of subsidies under various forms we may classify the subsidies according to destination in three categories:
- subsidies related to the turnover - are recognized as incomes from exploitation subsidies related to the turnover, for example the ones awarded at the sale of cultivated products;
- subsidies related to other incomes - are recognized as incomes from exploitation subsidies related to other incomes, for example: payments in direct payment schemes and complementary direct national payments;
- subsidies for operating expenses – are recognized as incomes from operating expenses for raw materials, consumable materials, for other expenses, such as: coupons for fuels, fertilizers, seeds.

In order to follow the enforcement manner of the accounting policies regarding subsidies we have established as objective making a study on the companies with agricultural orientation from Timiș County. From the performed study we may conclude the following:
- most of the companies with agricultural orientation have correctly applied the accounting policies regarding the subsidies for operating expenses, respectively the ones for diesel fuel, fertilizers, seeds, etc;
- part of the companies have applied the accounting policies regarding payments in the support schemes on surface and schemes for complementary direct national payments by registration of the incomes from those subsidies at the date of filing the requests for awarding, and the other part registered the incomes at the date of approval for the requests for awarding the subsidies;
- the subsidies related to the turnover were registered at incomes on the filing date of the request by most of the requesting companies;
- the accounting policies were the most correctly applied in the case of subsidies regarding the investments, due to the fact that in this situation there is a closer correlation between the expense with depreciation of the assets and passing the quota from subsidies to incomes.

**Conclusions**

In conclusion, we may say that for the correct application of accounting policies regarding the subsidies first of all is required the existence of a manual of accounting procedures and policies within each entity in the field of agriculture, as well as information of the personnel from the financial-accounting department regarding the procedure for award of the subsidies. Only by means of the close collaboration of all the departments within one entity to apply all the implemented procedures, we may reach a reasonable presentation of the subsidies in accounting and finally in the financial situations of the entities.
Resonable presentation of subsidies in the financial reports it is order like the necessity for the right information of the users and for the calculate some financial indicators without no distortion, and the importance comes from the accurate image principle.

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