

## ASPECTS REGARDING THE ACCOUNTING AND FISCAL TREATMENT OF FORESTRY OPERATION

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**Abstract:** Forestry is a very important economic activity which, in Romania, has a significant contribution to GDP formation. From the accounting and tax point of view, this activity has some particularities. This article aims to clarify certain aspects related to the accounting of forestry specific operations and to capture the main features provided by the current tax legislation concerning forestry activities.

**Key words:** forestry, accounting, fiscality

### INTRODUCTION

As a consequence of the society evolution and of the requirements that this has towards forests, the objectives and means of forestry have been continuously evolving. The coordinates of the present development of the society impose a rapid diversification of the forestry forms, the classical methods and means being incompatible with the requirements of the sustainable development [3,15]. Under these circumstances, accountancy as well, which reflects the operations done in forestry, had to adapt and find new forms of expression, and laws, both the specialty as well as the fiscal ones, had to undergo changes in time, as the attitude of the society towards forest, as object of the forestry, changed [1].

Just as the basis of accountancy is represented by the fundamental accountancy principles, which, in order to reach the purpose of accountancy, permanently adapt to the economic reality that they reflect, the fundamental principles of managing the forests change over time. If the fundamental objective of accountancy is to reflect in the financial situations the *fair view of the patrimony and results of an entity's activity*, the objectives of managing forests change over time, by the fact that society has new requirements and new knowledge regarding the components of the forestry ecosystems. At present, these objectives are based on 2 processes: the excessive exploitation of the forestry resources and the more and more thorough knowing of the way in which forestry ecosystems are structured [5].

In order to reach its targets, forestry operates, at present, based on the following principles: the principle of continuity, the principle of the ecological fundamentals of forestry, the principle of multifunctionality, the principle of capitalising all the functions of the forest, the principle of selectivity and the principle of stability [2,8].

According to *the principle of continuity*, the forest has to be organized and managed in such a way as to ensure every year for undetermined period, at least a constant or increasing production of wood and other goods, and to exercise simultaneously and in best conditions the formation functions and the preservation.

According to *the principle of the forestry rooted in ecology*, the forest culture has to differentiate its management measures according to the natural realities. Exemptions from this principle, generated by insufficient knowledge or by a series of economic and political theory, did nothing else but to prove, on a large scale, that the forestry rooted in ecology is the only possible alternative.

*The principle of multifunctionality* involves that the forestry management be organized and the forests be governed in such a way that it may fulfil in the best way possible and simultaneously all functions that are useful to society. The purpose of the

multifunctional forestry resides in using all the material and non-material resources that the forest offers, in the most reasonable possible way. And that is because in the present economy, besides wood production, other functions of the forest become important, or even paramount, especially the hydrologic ones, the anti-erosion and recreational ones (hunting activities are included here). From this vision another principle of the forestry comes out, namely *the principle of capitalizing all the functions of the forest*, which involves differentiating and adapting the existing technologies taking into account the priority function, but necessarily the production function.

*The principle of the selectivity* of the forestry works is based on the phenotypic selection (meaning on the way the trees look like), with systematic character (meaning that interventions are repeated at set amounts of time), in the domain of producing the wood material, of the maintenance works and of the regeneration cut offs.

It is necessary to apply *the principle of stability* in forestry as the repeated regeneration of the cultivated forest, however rationally done, leads in time to the diminishing of its stability, the differences from one area to another, from one historic period to the other being due to the abiotic, biotic and natural factors. The issue of ecosystems stability has been discussed a lot in theory but it cannot be solved by foresters through specific methods. It is closely linked to and may be solved only within the general issue of the protection against air, soil and water pollution.

Consequently, all these new paradigms of forestry impose new approaches of this activity both from an accounting as well as fiscal point of view. Accountancy will have to find new ways to reflect in the financial situation these always changing aspects of forestry and fiscality should create the necessary tools to encourage/discourage the various practices specific to this domain.

## MATERIALS AND METHODS

Taking into account the particular and special character of forestry, the purpose of this article is to analyse the aspects specific to forestry from fiscal as well as from accountancy point of view. In order to fulfil this purpose, the article synthesizes the main norm acts which regulate the forestry activity from fiscal point of view, mainly the Fiscal but also the Accounting Code, respectively the Order of the Minister for Public Affairs 1802/2014.

Another purpose of the article is to offer solutions which help reflect in the accountancy the economic operations specific to these activities starting from the international experience in this domain, therefore the foreign literature and laws, which treat respectively regulate the forestry operations have been studied.

It is to be mentioned that this article approaches aspects related only to forestry exploitation, without referring to the other functions of the forestry fund.

## RESEARCH RESULTS

We cannot talk about making things visible in the accountancy without previously approaching the issue of assessment. In the forestry activity the *standing timber* (the *live* wooden matter which is in the forest) raises issues. From the point of view of IAS 41 "Agriculture", this is a biological asset, defined as being "a living animal or a living plant" (the book). The same standard offers us the assessment solution as well namely the *just value*. But this is not a complete solution, as we have to establish what the just value means in this particular case. According to the study done by Clive Suckling, Bo Lagerström "*The application of fair value to standing timber requires considerable judgment... Fair value implies a market based value and whilst there are markets around the world for the*

*harvested products of forest, markets for standing timber are limited in comparison with the total volume of standing forest” [6].*

IAS 41 allows various methods in order to set the just value: the market value, the updated value of the net cash flows and the historic cost. Among these methods the preferred one is the method of the market value, it's just that this one is used in the situation where reliable market prices are available. The method of the updated cash flows (“DCF” method) involves calculating the just value as updated value of the net cash flows expected from the updated assets at a present ratio of the market. The method of historic costs is less utilised being a treatment that is only allowed in certain situations [9].

In the case of the “standing timber” the above mentioned study established that “it seems that the majority of preparers have concluded that active and transparent markets in timberlands are the exception rather than the rule. Hence the use of net present value/DCF methods is the prevailing method of determining fair value. Where markets do exist, often they are restricted to smaller timberland plots, not on a scale that is of interest to strategic or financial investors, and hence the community of IFRS preparers” [6].

As far as the accounting documents used in forestry are concerned, besides the documents specific to the other activity domains (invoices, receipts, book keeping records, financial reporting documents, etc), we meet a few which are specific to this domain, which are regulated by the *Resolution no. 470/2014 for approving the Norms regarding the origin, circulation and trading of wood materials, regarding the storage place regime of the wooden materials and of the equipment for processing round wood* [14]. Among the documents stipulated by this normative act which prove the origin of the wooden material, here are a few: the act for capitalising, Registry for the Ins and Outs of wooden material, the intracommunity document in the case of the wooden material which is delivered to another EU member state, respectively the Import Customs Declaration or FLEGT license, according to the case, for states outside the EU, etc. Unfortunately, although the documents by which the exploitation and trade operations of the wood mass are strictly regulated, including by complying to the European policies in the matter by introducing the FLEGT licenses (*by the Order no. 1721 regarding the approval of the methodological norms for receiving, checking, and accepting the FLEGT licenses*), by which the origin of the delivered respectively traded wood mass is tracked, the practice of the illegal exploitations of wood in Romania is an issue that has been identified at national level and solutions are sought for it, just as it is suggested in the National Forestry Strategy 2018-2027 issued by the Ministry of Waters and Forests [11,17].

A further issue that the accountancy has to solve is the one related to the calculation of costs in forestry...To this aim it is necessary to identify the main elements of expenses generated by this activity. That's why we have to do the distinction between the two process groups that the forestry exploitation involves, respectively the technological and the labour process. Another aspect absolutely necessary is becoming aware of the fact that the final product of the exploitation is represented by the various types of raw wood, of sizes and quality corresponding to the industrial processing or to the direct usage. Taking these particularities into account we can identify the next expenses grouped into the two categories of expenses: direct and indirect ones. Thus, what is included in the category of the direct expenses is: the expenses with the wooden mass purchased, the expenses with the direct productive personnel and the expenses related to the maintenance and functioning of the equipment. The indirect expenses will be the ones related to the prevention and putting out of fires, safeguarding, environment protection etc. [4].

The operations to be registered in the financial accountancy specific to the forestry exploitations are: purchasing the “wooden mass on foot” that is to be exploited based on the license issued by the Forestry Yard (in Romanian “Ocolul Silvic”) and obtaining the

wood mass as a result of exploitation. “The wooden mass on foot” will be registered in the account 351 “Matters and materials found at third parties”. The wood obtained after exploitation will be registered as final product, if it will be delivered as such, or as raw material if the entity will further process this wood in order to obtain other products (timber, planks etc) [7,16].

In what regards the fiscality of the forestry exploitation activity, it involves two different aspects: taxing the revenues generated by this activity and the way of determining and calculating the VAT for these activities.

The taxation of incomes from forestry activities is regulated in chapter VII – *Incomes from agricultural, forestry and fish farming from the Law no. 227/2015 regarding the Fiscal Code*. Thus, according to paragraph (1), letter a, article 105 “*Untaxable revenues*”: “*In the case of the wood mass only the revenues obtained from its exploitation and capitalisation in a maximum volume of 20 sm/year from the forests that the tax-payers have in property are untaxable revenues.*” [15]

For the incomes obtained from exploiting and capitalising the wood mass which surpass this limit the taxation is done according to art. 107 paragraph (1) and (6). Therefore, paragraph (1) stipulates that “*The tax for incomes from agricultural activities is calculated by the tax-payer by applying a quota of 10% on the yearly revenue from agricultural activities established on the yearly revenue norm, the tax being final*”, and article (6) completes by saying that “*The tax-payers who have incomes from agricultural activities, forestry and fish farming have the obligation to set the taxable net yearly income / the net yearly loss for every single income source from the category, except for the incomes for which the tax is final.*” [15]

Regarding the VAT according to art. 331 “Simplifying measures” in the category of the operations where the reversed taxation stipulated in paragraph (2), letter (b) applies one mentions the delivery of wood mass and wood materials. Consequently, for these operations no VAT payments are done between provider and beneficiary, in the circumstances where, generally speaking the beneficiary will owe for the operations done the corresponding tax for the entries and he/she will also have the right to deduct that particular tax [15].

## CONCLUSIONS

Forestry is a vast domain which comprises numerous activities, from among which the activity of forestry exploitation distinguishes itself through complexity and extent. This activity has certain particularities which require specific approaches not just from technical point of view but also from fiscal, financial and accountancy point of view. That is why in this article we tried to take a look at the main fiscal and accounting aspects regarding this activity.

A first aspect approached is the one of assessing the assets specific to the forestry exploitation activity. Making recourse to the international accountancy practices, more specifically to the provisions of IAS 41 “Agriculture”, we presented the modality of assessing the “wooden mass on foot”, which causes problems in practice. The conclusion we reached was that although the standard recommends as an assessment basis of the biological assets the just value, established based on the market value, in this particular case, due to the particularities of the market for the wooden mass, more appropriate is the method of the updated cash flows (the “DCF” method) for determining the just value of the “wooden mass on foot”.

After that we presented the main specific financial-accounting documents used in agriculture as they are regulated by the Resolution no. 470/2014, as well as the documents used as a consequence of the compliance with the European laws in matter, respectively

the FLEGT licenses. The conclusion we reached was that although the entire forestry exploitation activity, starting from obtaining the exploitation agreements by bid and up to the transportation and trading of the wooden mass, is strictly regulated from the point of view of both the procedures and of the documents used, the practice of the illegal exploitations of forests is, in Romania, an issue that the authorities are trying to solve.

Another problem approached was that of calculating the production cost in the forestry exploitation activity. The conclusion we reached was that in order to correctly calculate the production cost of the various types of raw wood, it is necessary to identify the direct and indirect expenses belonging to the two process groups that the forestry exploitation involves, respectively the technological and labour process.

In what concerns the registration in the financial accountancy of the operations generated by the forestry exploitation activity, we considered useful for us to refer just to the way in which the “wooden mass on foot” that exists on the piece of land to be exploited, assigned by the exploitation contract. The suggestion done is to use the account 351 “*Matters and materials found at third parties*”, up to cutting down the trees and transforming them in final products.

In the end of the article we presented the way of taxation of the income generated by the forestry exploitation activity, respectively the use of the “reversed taxation” in the case of the VAT.

The final conclusion is that in the domain of forestry exploitation, despite the fact that there are strict regulations in what concerns the exploiting procedure and the documents used, there are no specific rules regarding the assessment of the specific assets, the calculation of the costs for the final products of this activity or the registration in the financial accountancy of the main operations, which may lead to various approaches, more or less correct. This perspective can be an impediment in the accuracy of the accounting information presented by the yearly financial situations of the economic entities which are active in this domain. From among the fundamental qualitative characteristics of the accounting information the exact representation could be affected, as it is defined in point 34 of the *Order of the Public Finances Ministry 1802/2014*, and from among the amplifying qualitative characteristics: *the comparability* (defined by point 39 of the *Order of the Public Finances Ministry 1802/2014*) and the traceability (described by point 42 of the *Order of the Public Finances Ministry 1802/2014*).

In our opinion the solution to avoid these possible qualitative digressions of the accounting information is to create some *Good Practices Guides*, which can offer unitary solutions for assessment, calculation and registration for all the economic entities which carry out forestry exploitation activities.

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