

THE ROLE OF INVESTMENTS SUBSIDIES IN THE ENTITIES RESEARCH AND DEVELOPMENT ACTIVITIES

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Abstract:

In this manuscript, we intend to emphasize the influence of investments subsidies over the R&D activities in order to increase their economic benefits. Investments subsidies are used by the Governments as tools to reduce the market price of goods below its cost of production. The European Union instruments for cohesion are drivers for competition, convergence and social development for employment absorption on the market.

Key words: *investments subsidies, accounting for Government grants, research and development, structural funds*

JEL classification: *O3, H2, M0*

INTRODUCTION

Romanian economic entities have to apply for structural funds in order to increase their competitiveness on the global market and to be able to survive and increase their economic and financial benefits. The measures taken to increase productivity and reduce disparities compared to the EU average, aimed at gradually raising productivity by about 5.5% annually until 2015. Reaching the estimated level of 55% of the EU average, Romanian entities will be able to improve the competitive position in order to face the challenges and be able to benefit from the opportunities arising from their presence on the European Single Market as well as eligibility for FEDR (European Regional Development Fund). In the POS CCE (Sectoral Operational Programme Competitiveness and Economic Growth) the following axes have been identified:

- Priority axis 1: A System of Innovative and Eco-efficient Production;
- Priority axis 2: Competitiveness through Research, Technological Development and Innovation;
- Priority axis 3: Information and Communication Technology (ICT) to the Private and Public Sectors;
- Priority axis 4: Increase Energy Efficiency and Supply Security in the Context of the Fight Against Climate Change;
- Priority axis 5: Technical Assistance.

In Romania the funds absorption for research and development in 2012 was 10% with possibilities of growth to 15%, if payments will resume. This value is low, considering that the target for 2012 was 20%.

Lisbon Strategy till 2010 aimed at assigning a rate of 3% of GDP for research and development activities. This objective could not be achieved and subsequently the 3 % target was maintained, forming one of five key targets within the Europe 2020.

Central policy areas for EU are the investment in research, development, education and skills. These key areas are essential to economic growth and to the development of the knowledge-based economy. The Europe 2020 strategy sets out a vision of Europe's social market economy for the 21st century. It aims to turn the EU

into a smart, sustainable and inclusive economy that delivers high levels of employment, productivity and social cohesion. Innovation is a motor for economic progress: it is therefore a key element of Europe 2020¹.

Europe 2020 puts forward three priorities that go together and reinforce each other²:

- smart growth: developing an economy based on knowledge and innovation;
- sustainable growth: promoting a more resource efficient, greener and more competitive economy;
- inclusive growth: fostering a high-employment economy, delivering social and geographical cohesion.

MATERIALS AND METHODS

In this paper we collect data through archive sources within the logical manner of a conceptual research, comparative analysis and scientific observation. We analyzed information from a large number of documentary sources in order to determine the actual state regarding European Union funds used by economic entities to finance their R&D activities.

We also use databases such as: Eurostat, The National Institute of Statistics, BERD, Statistical Yearbook of Romania and classic bibliography.

R&D EXPENDITURES IN THE EU COUNTRIES

The European Innovation Scoreboard published a report conducted by the Maastricht Economic and Social Research and Training Centre on Innovation and Technology. According to the report, the difference of performance in innovation divided the EU countries into four groups³:

- *Innovation leaders*: Switzerland, Sweden, Finland, Germany, Denmark and the UK, with performances 20% above the EU average.
- *Innovation followers*: Austria, Ireland, Luxembourg, Belgium, France and the Netherlands, with performances less than 20% above the EU average.
- *Moderate innovators*: Cyprus, Iceland, Estonia, Slovenia, Czech Republic, Norway, Spain, Portugal, Greece and Italy with performances in innovation less than 10% below the EU average.
- *Modest innovators*: Malta, Hungary, Slovakia, Poland, Lithuania, Croatia, Romania, Latvia, Bulgaria and Turkey are countries in recovery with innovation performance 50% below the EU average.

We presented below the statistical information provide by Eurostat, regarding EU member countries performance in innovation, and we compared Romania with Malta, Hungary, Slovakia, Poland, Lithuania, Croatia, Latvia, Bulgaria and Turkey, countries in recovery with innovation performance, well below the EU average (fig.1). Also, we compared Romania with the countries from all the fourth groups mentioned above (fig.2), taking into consideration Gross domestic expenditures % on R&D between 2006-2010.

In order to obtain economic growth, Romania should increase innovation and R&D expenditures.

¹http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Human_resources_in_science_and_technology

² Idem 1

³ European Commission Enterprise and Industry, European Innovation Scoreboard 2009

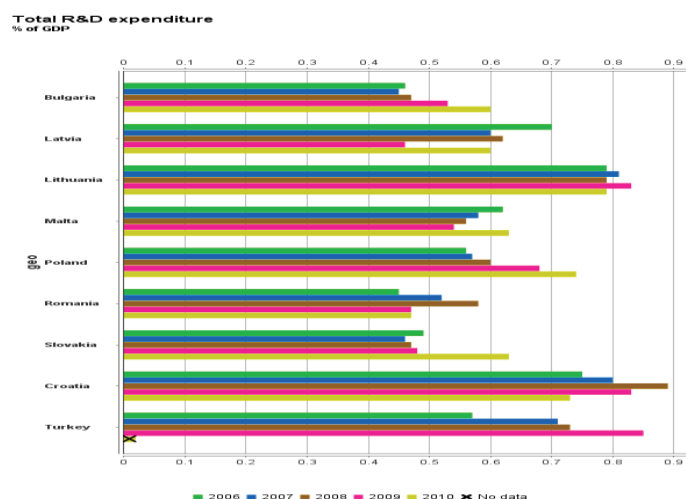


Fig.1. Gross domestic expenditures % on R&D 2006-2010 between countries form group four (source: Eurostat)

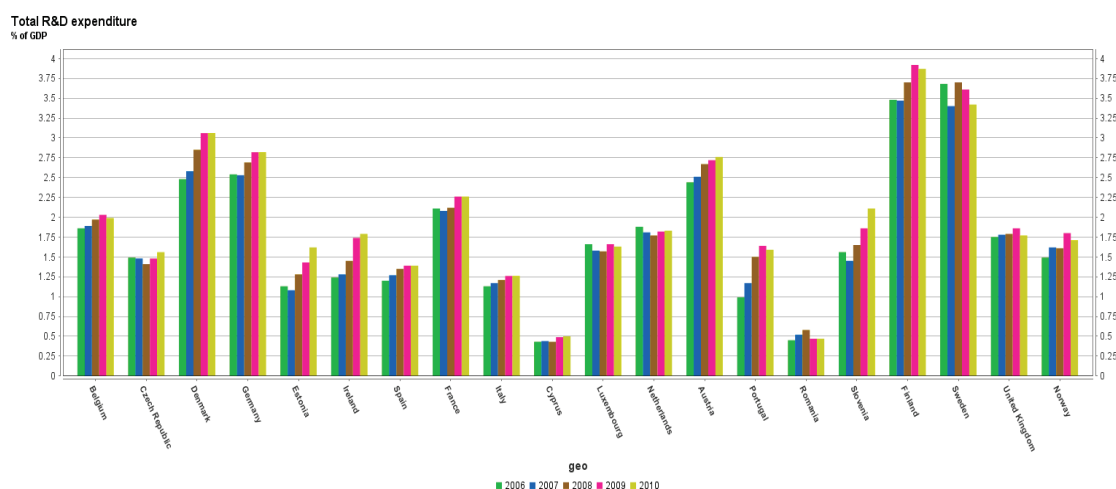


Fig.2. Gross domestic expenditures % on R&D 2006-2010 cross EU countries comparison (source: Eurostat)

Eurostat Statistics provide important indicators for measuring R&D outputs for a cross-country comparison.

During the last years R&D activities increased in the EU countries. This increase was based on investments from Structural Funds, Balcanic countries, especially, being able to move towards the national goals establish in the context of the revised Lisbon Strategy.

RECOGNITION AND MEASUREMENT OF INVESTMENT SUBSIDIES FOR ASSETS USED IN RESEARCH AND DEVELOPMENT

Under IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", receiving subsidies represents an advantage for the entity, objectified in goods and values that usually do not have to be reimbursed, called government assistance. This is a government action designed to provide economic benefits specific to an entity or categories of entities that meet certain criteria.

If we consider the *source or provenance*, subsidies can be:

- subsidies from the Government itself (governmental or state);
- subsidies of Government agencies;
- subsidies from other national and international institutions.

In terms of *economic content*, are assimilated as subsidies of assets the following:

- *governmental grants for investments;*
- *nonrefundable loans with investment subsidies character;*
- *donations for investments;*
- *pluses of inventory the nature of assets.*

Subsidies are in fact transfers of resources to an entity in exchange for complying with past, present or future conditions regarding operating activities.

The *accounting recognition* of subsidies is made on a systematic basis as an income over the corresponding period's related costs which they are intended to compensate.

Subsidies' *assessment* is done at the *entrance value* of cash when subsidies take a monetary form, respectively at their *fair value* when they take the form of a non-monetary assets transfer (e.g. tangible assets).

Subsidies *related to assets* (for investments in the R&C activity) represent funding sources allocated without a refunding obligation, provided that the entity to acquire or build fixed assets. In the balance sheet they are recognized as differed income, not affecting the capital or reserves accounts, but the profit and loss account due to depreciation, assignment or cassation of assets entered through subsidies for investments.

The *reimbursement* of subsidies related to assets is registered by *reducing the deferred income balance* by the reimbursable amount and of the subsidies related to income by reducing differed incomes whether they exists or in their absence on account of *expenses*, the same shall apply when the reimbursed amount exceeds the deferred income or there is no income, the surplus being recognized as an expense.

FISCAL IMPLICATIONS IN INVESTMENTS SUBSIDIES ACCOUNTING

Investments subsidies are represented by sources of funding allocated from the state budget or otherwise, in favor of entities for purchasing or producing equipment or other goods, such as fixed assets, including long-term financing activities or to cover other investments expenses. Receiving subsidies represents an advantage for the entity, objectified in goods and values that usually do not have to be reimbursed, called *government assistance* (IAS 20 " *Accounting for Government Grants and Disclosure of Government Assistance* ")⁴.

Government assistance represents government actions designed to provide economic benefits specific to an entity or categories of entities that meet certain criteria.

Subsidies are recognized on a systematic basis as an income over the corresponding period's related costs which they are intended to compensate. They do not have to be credited directly in capital and reserves accounts.

Governmental subsidies are in fact transfers of resources to an entity in exchange for complying with past, present or future conditions regarding operating activities.

Subsidies for assets including non-monetary subsidies at fair value are recognized in the balance sheet as *deferred income*.

Government assistance granted to entities, is intended to stimulate and support the long-term activities in certain regions or sectors. The conditions of granting governmental assistance may not be explicitly linked to the current activities of the enterprise. An example of government assistance is the transfer of resources from the government to enterprises:

- operating in a particular industry;

⁴ D. Mates, L. Cernusa, D. Manate, D. Motrea, I. Bostan, C. Manate, *Evaluarea, reorganizarea si lichidarea entitatilor economice*, Ed. Gutenberg Univers, Arad, 2011, p.101-105

- continues to operate in newly privatized sectors;
- begin or continue activity in underdeveloped regions.

The way in which a subsidy is received does not affect highlighting in accounting:

- whether cash was received;
- or as a reduction of a liability to the government.

According to IAS 20 - "*Accounting for Government Grants and Disclosure of Government Assistance*", governmental grants are as an income over the corresponding periods related costs which they are intended to compensate⁵.

In this respect, two approaches of the accounting treatment are distinguished as follows:

a) In terms of capital, under which *a subsidy is credited directly to shareholders' interests*, because it does not involve any reimbursement, revealing itself in the balance sheet and not in the income statement, representing an incentive provided by the government without related costs.

b) In terms of the financial result, under which a subsidy is included in income over one or more periods, because it represents an entry from a different source than shareholders, thus they should be recognized as income in the corresponding periods and included in the income statement, which represents an extension of fiscal policies.

In most cases the periods over which an entity recognizes the costs related to a government subsidy are easily identified and thus subsidies are recognized as income in the same period as the relevant expense. Similarly, subsidies related to depreciable assets are recognized generally as income over the periods and in the proportions in which depreciation on those assets is listed in expenses.

A government subsidy may take the form of a monetary asset transfer, or other resources to support the business. It is necessary in these circumstances to account both the subsidy and the asset at *fair value*.

The repayment of a subsidy shall be made by reducing deferred incomes whether they exists, or in their absence on account of expenses. To the extent that the repaid amount exceeds the deferred income or there is no income, the surplus, respectively the integral value repaid is immediately recognized as an expense. The repayment of a subsidy related to assets is registered by reducing the deferred income balance by the repayable amount.

Two *alternatives* are considered acceptable in drawing up financial statements regarding *subsidies related to assets*, namely:

- one of the alternatives *establishes subsidy as a deferred income* recognized over the useful life of the asset;
- the other alternative *deducts the subsidy, to obtain the net book value* of the asset, being recognized as income over the life cycle of a depreciable asset by reducing the depreciation expense.

Irrespective of the chosen alternative, *investments subsidies represent a controlled resource for the entity, generating future economic benefits*.

The *subsidy* is often reflected in an investment whose effect on the entity's expenses will manifest in the future, as the depreciation is recorded. These expenses are not a real effort of the entity, so they should not influence the outcome of the current exercise. Therefore it is necessary to cancel the effect of depreciation of the asset financed through investments, on the result of the accounting period, by registering in an income account a part of the received investment in proportion with the depreciation registers in expenses.

⁵ V. Grosu, *Perspective si limite in procesul de armonizare financiar- contabila*, Editura Tipomoldova, Iasi, 2010

The same reasoning should be adopted when it comes to assignment (sale) of assets received through subsidies for the not depreciable part of the entry value.

In the case of carrying out external programs in Romania, in financial accounting the economic transactions are registered according to accounting regulations approved by OMFP no. 3055/2009⁶.

Economic entities must organize internal records to meet the requirements regarding project information requested by the funder according to the concluded contracts.

In terms of accounting issues presented in the two investments subsidies specific activities (investment activity and current activity) as a result of carrying out POS CCE programs, they are solved under the chain of accounting records that are based on supporting documents and the contractual clauses established between the parties.

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CONCLUSIONS

Our research enables us to identify factors that influence the absorption and implementation of EU structural funds in Romania. The main factors which formed the basis of a low European funds absorption are: political instability, poor remuneration of staff working in the public sector, the instability of personnel involved in the management of the EU funds, excessive politicization of local, regional and national public administration.

Absorption and implementation of European funds for financing research and development activities, has positive impact on profitability growth and competitive factors action on a free market.

Government uses subsidies as economic-financial levers, in order to influence indirectly the economy by stimulating the investments. Subsidies serve as a balancing mechanism between the various levels of Government or between different areas of a country through preference shown towards poorer areas.

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⁶ OMFP 3055/2009 Pentru aprobarea reglementarilor contabile conforme cu directivele europene, M.Of. 766/2009