

EMPLOYEES' BENEFITS, BETWEEN THEORY AND PRACTICE

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Abstract

The concept of "employee benefits" promotes economic security, offering a financial protection to a company's employees and their families, thus contributing to increasing the living standards. This concept is put into practice through a partnership of government, economic entities and employees. In order to implement this concept, the state elaborates regulatory documents that legalize relations between the entity and employees and the economic entities receive services from employees and pay them by expending resources. A properly achievement of this partnership enables the achievement of at least two important objectives such as: the security of employees' incomes and the increasing of living standards.

Key words: human resources, employees' benefits, post-employment benefits, social security.

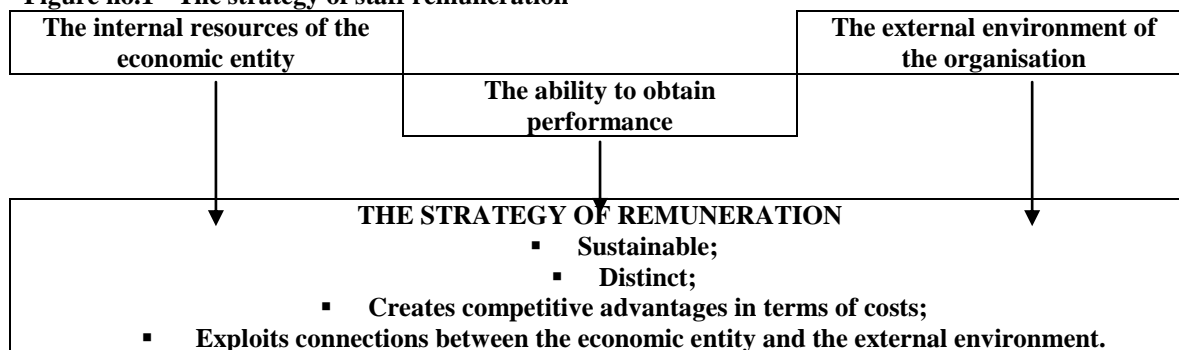
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1. Introduction

The proper course of the economic activity of a company is achieved through the decisive contribution of the human factor that should be paid adequately to the work done, taking into account trends manifested in the labour market. Human resources represent strategic resources of an economic entity, unique in their ability to acknowledge and overcome their own limitations, being considered the most valuable asset. In an economic environment characterized by competition, dynamism and interdependence, employees should not be regarded only as workers, but also as progress factors which must actively involve in enterprise's issues through their actual behaviour.

In this context, the entity's management must possess a clear coherent strategy on remuneration, based on creating and maintaining a powerful liaison between the entity's general management policies and the used remuneration practices. According to experts in this field, *"this means that the remuneration strategy should be sustainable – in order to obtain the desired effects over time, - to be distinct by containing innovative elements for staff practices, to offer competitive advantages from the point of view of the workforce costs and to permanently exploit the relations between the economic entity and the external environment."*(1).

Figure no.1 - The strategy of staff remuneration



Source: Berman, E.M., Bowman, J.S., West, J.P., Van Wart, M., *Human Resource Management :Paradoxes, Processes and Problems*

2. Work remuneration within the entity

"The salary system can be defined as a set of rules that establish principles, objectives, elements and forms of work remuneration, also regulating the means, methods and tools of accomplishment, by determining the conditions of establishing and granting salaries."(2). Every salary system is mainly aimed at fixing a connection between the performances of the economic entity and the employees' incomes, between the financial equilibrium of the entity and the need to satisfy some necessities of individuals.

Today, entities in our country possess the liberty to conceive their own salary systems based on economical and social variables that have to be included in the European Social Charter, a document that is signed by the member governments of the European Council and ratified by Romania in 1999. According to this, contractants engage to:

- acknowledge workers' right to a sufficient remuneration, in order to insure them and their families a decent living,
- recognize workers' right to an increased level for the additional work hours, except for some particular cases;
- acknowledge workers' right to a reasonable notice period in case of employment cease;
- not authorize salary deductions unless they are in terms and conditions provided by the legislation or national regulation or fixed through arbitration.

In the European Social Charter it is stated that exercising these rights must be ensured through collective agreements, legal methods of fixing salaries and any other method that is adequate to national conditions.

In Romania, from social security reasons, after consulting with unions and employees, the government establishes from time to time a minimum level of the salary on the economy. In this context, no employer has the right to pay an employee who possesses an employment contract a lower salary than the one established at the economic level for a full-time period. From an economic perspective, this level of salary is given by the point where the two curves of demand and supply of labour meet, considering at the same time the possibilities of the national economy.

Today the minimum wage on the economy is established in over 90% of world countries. In Germany and in the Nordic countries there is no minimum wage on the economy but only some sectoral agreements between unions and employers, followed by the establishing of a certain wage. In this context, it should be noted that there are opinions of experts who claim that the minimum wage established by the government clearly violates the principle of setting the level of salaries on the market, according to demand and supply. Definitely in Romania, as the economy recovers, the mandatory minimum wage will be given up.

3.Regulating employees' benefits - as a stimulation and social security factor

Employees' benefits represent *“all forms of consideration given by an entity in exchange for the employee's rendered service or for employment contract cease.”*(3). The increasing interest for an efficient wage policy is based on convincing experts that remuneration is both a consequence and a prerequisite of an efficient social and economic activity. In this context, employees' benefits were conceived as forms of motivation and reward in order to help increasing work performance.

Today, the system of benefits granted to Romanian employees is governed by law, ordinances and special regulations represented by : labour and unemployment laws, public health system, public pension system, fiscal regulations within salaries etc.

Internationally, employees' benefits are governed by **Employees' benefits IAS 19**, (amended by the European Commission Regulation no.475/2012), **IAS 26 Accounting and reporting the pension plan, SFATS No. 87 „Employers Accounting for Pension”, SFAS No. 88 „Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination of Benefits”, SFAS No. 106 „Employers Accounting for Postretirement Benefits Other Than Pensions”** si **SFAS No. 132 „Employers Disclosures About pensions and Other Postretirement Benefits”**.

4. Accounting approaches regarding the concept of benefits granted to employees

An employee may provide services to an entity on a full time, part time, permanent, occasional or temporary basis.

The International Accounting Standard **19 Employees' Benefits** (as amended by EU Commission Regulation no.475/2012) includes in the category of benefits:

a) short-term employees' benefits such as the following, if they are expected to be fully paid within twelve months of the end of the annual reporting period in which the employees render the services in question:

- retributions, salaries and contributions to social insurances;
- paid annual leave and paid sick leave;
- profit sharing and bonuses;

-non-monetary benefits represented by healthcare, housing, cars and assets and free or subsidized services.,

b) post-employment benefits, represented by:

-retirement benefits, such as pensions and lump-sum payments on retirement

-other post-employment benefits, such as post-employment life insurance and medical care.

c) other long term benefits, such as:

-long-term paid absences such as holidays for seniority; -jubilee or other seniority benefits;

-benefits for long term disability. d) compensation for termination of employment contract.

Employees' benefits include benefits provided to either employees or their dependents and may be discounted through payments (or through provision of goods and services) made either directly to the employees, or to the husband (wife), children or other dependents them or to third parties such as insurance companies.

5. Recognition of employees' benefits in the financial statements of the employer

The International Accounting Standard 19 Employees' Benefits requires an entity to recognize the undiscounted amount of long-term employee benefits expected to be paid in exchange for a service performed by the employee:

- a) as a liability (accrued expense), after deduction of any already paid amount . If the already paid amount exceeds the undiscounted amount of benefits, the entity should acknowledge this surplus of asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund;
- b) as an expense, unless another IFRS requires or permits the inclusion of benefits in the cost of an asset, as required by **IAS 21 Stocks** and **IAS 16 tangible assets**.

Example

Recognition and evaluation of short term benefits granted to employees

Note: The example is adapted from **IAS 19 Employees' benefits**, the amounts used having an illustrative and intrinsic character.

About employee Y from SC „Y” SRL we know the following information on January, financial exercise N: 2000 lei employment salary, 200 lei seniority bonus (10%), 10 lei daily meal, the month has 22 working days, the employee uses the car company which has an input value of 35,000 lei, the employee has a company phone with a subscription of 20 euro, the bill received at the end of the month being of 30 euro; 2.000 annually subscription to fitness, 300 lei insurance premium; the monthly roadmap shows that the employee has travelled 500 km in his own interest, 1.500 km the home-work distance (round trip) and 3.000 km for work purpose, consuming a total of 350 l gas worth 2.100 lei (350 litres x 6 lei / litre), the goods received in kind for January are worth 1.500 lei.

Considering these information, we can proceed in calculating the net salary

-wage employment	2.000 lei
-seniority bonus	200 lei
-products offered as payment in kind	1.500 lei
-car use (35.000 x 1,7 x 500 : 5.000)	5.950 lei
-gas use (2.100 x 500 : 5.000)	210 lei
-daily meal (10 x 22)	220 lei
-phone use (10 x 4,5)	45 lei
-monthly fitness subscription (1.200 : 12)	100 lei
-monthly insurance premium	300 lei
Total gross income (salary)	10.525 lei
-Unemployment fund contribution (2.000 x 0,5%)	10 lei
-CAS (10.525 x 10,5%)	1.105 lei
-CASS (10.525 x 5,5%)	579 lei
Total deductions	1.694 lei
Total chargeable income (salary) (10.525-1.694)	8.831 lei
-Tax on salary incomes (16%)	1.413 lei
-Net salary (arrears) (8.831 – 1.413)	7.418 lei

Based on these calculations extracted from January payroll, the accounting financial exercise N performs the following records:

1.Salary for worker X

10.525	Salary costs	=	Salaries payment	10.525
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2. Deductions from salaries

3.107	Salaries payment	=	%	
			Unemployment contribution	10
			CAS employee	1.105
			CASS employee	579
			Tax on salary incomes	1.413

3. Salaries payment

7.418	Salaries payment	=	House RON	7.418
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4. Entity's costs due to remuneration

Unemployment costs	=	Unemployment contribution	53 (10.525 x 0,50%)
CAS costs	=	CAS contribution	2.715 (10.525 x 25,8%)
CASS costs	=	CASS contribution	547 (10.525 x 5,2%)

6. The accounting treatment of paid absences

According to **IAS 19 Employees' Benefits**, as amended by EU Regulation no.475/2012, an entity should recognize the expected cost of short-term employees' benefits in the form of paid absences, as follows:

- in case of accumulated paid absences, when employees render service that increases their entitlement to future paid absences;
- in case of unaccumulated paid absences, when these happen.

An entity's obligation to employees is when they render a service that increases their entitlement to future paid absences.

An entity should assess the estimated cost of absences as an additional amount expected to be paid as a result of the unused right, accumulated by the end of the reporting period.

An entity may pay employees for absences occurred for various reasons, including vacation, sickness and short-term disability, maternity or paternity. Paid absences right is divided into two categories:

- by cumulation;
- by non-cumulation;

1. Non-cumulated paid absences are carried forward and can be used in the future if the current period's right is not totally used.

In turn, cumulated paid absences are

- legitimate** when, on leaving the entity, employees are entitled to a cash payment for the unused right;
- illegitimate** when, on leaving the entity, employees are not entitled to a cash payment for the unused right.

Even in case the paid absences are illegitimate, the obligation exists although the possibility those employees may leave before they use the illegitimate cumulated right affects the evaluation of the respective obligation.

2. Non-cumulated paid absences are not rolled over. They are not taken into account if not used in the current year and do not entitle employees to a cash payment for the unused right on leaving the unit. This is the case of sick, maternity or paternity leave. In this situation, the entity does not acknowledge any liability or expense until the moment of absence because an employee's rendered service does not increase the amount of benefit.

7. Illustrative example inspired from IAS 19 Employees' benefits (4)

SC "X" LLC has 50 employees, each entitled to five days of paid sick leave per year, indicating that this right can only be used in the following year. Days of sick leave are removed from the current year's entitlement and

then out of any balance brought forward from the previous year using the LIFO method. At the end of the financial exercise 20x1, the average right to unused sick leave is 2 days for each employee.

Based on this situation, which is hoped to be repeated, the entity states that 46 employees should take more than 5 days of sick leave in 20x2 and the other 4 employees should take an average of 6.5 days. Based on this situation, which is hoped to be repeated, the entity states that 46 employees should take more than 5 days of sick leave in 20x2 and the other 4 employees should take an average of 6.5 days. In this context, the entity will acknowledge a liability to pay 6 days of sick leave.

8. Conclusions

In order to increase the economic efficiency of the activity of an entity's managerial leadership, it must be given a priority attention to workers who must be regarded not only as employees but also as a factor of progress, which through their attitude should be involved more actively in the entity's activity. For this purpose, incentives to employees in the form of benefits must be diversified, thus contributing to employees' income security and living standards increase.

Through the improvements to **Standard 19 Employees' Benefits** of EU Regulation no. 475/2012 of the European Commission it was intended to find new ways to motivate and reward employees who contribute to their stimulation and thus increase the performance of work.

Endnotes

- (1) Berman E.M., Bowman, J.S., West, J.P., Van Wart, M., *Human Resource Management :Paradoxes, Processes and Problems, 3rd Edition, Library of Congress Cataloging in Publication Data, United States of America, 2010, page 186*
- (2) Bucur I., *Economie politică, PIM Publishing House, Iași, 2007, page 103*
- (3) Regulation (EU) no. 475/2012 of June 5th 2012, wp3.beck.ro>Curierul fiscal> International Fax Law
- (4) IFRS 2009- *CECCAR Publishing House, Bucharest, 2009*

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- [4]. **** *Standarde Internaționale de Raportare Financiară, CECCAR Publishing House , Bucharest, 2009*