

## SALARIES IN THE CONSTRUCTION SECTOR – FROM ACCOUNTING PERSPECTIVE

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### Abstract

*The construction sector faced, after the economic crisis who affected deeply this sector, both with a lack of qualified staff and with reduced salary levels. The accounting records for the staff includes salary entitlements, bonuses, additions, awards of payroll, allowances for rest and those for temporary disability paid from the salary fund, the first representing staff participation in profit, granted by law, and other rights in cash and / or kind of entity due to staff for their work.*

*In this paper we present the contributions due to the State Budget by society and by the employees and we present the recognition of these operations in accounting formulas in accordance with the OMFP 1802/2014. In Romania the level of contributions to the pension system was reduced for the employer with the aim of decreasing tax evasion recorded. In this paper we want to reflect the impact of this decision on the pension system.*

**Keywords:** accounting, construction sector, globalization, payroll

**Classification JEL:** J 39- Other

### 1. Introduction

Human resource plays an important role in the functioning of an economy. From the perspective of companies, this represents a cost, labor cost, which includes not only salaries and wages paid to employees, but also social contributions payable by the employer, thus, representing a decisive factor for the competitiveness of businesses worldwide. Regarding employees, the remuneration they receive for their work, known as salary or income salary is generally their main source of income and therefore has a major impact on their ability to spend or save their money.

In this paper we want to present the level of wages in Romania compared to other EU countries and to reflect the accounting operations with salary payments in a case study realized in a company who activates in the construction sector.

To reflect from practical point of view the payroll accounting system in the construction field we conducted a case study based on data provided by a construction company from Romania.

For the work performed after the conditions stipulated in the labor contract, each employee is entitled to a wage agreed in the employment contract. The employer is responsible to provide the necessary conditions for each employee to be capable to fulfill his tasks, in the daily work schedule.

### 2. Registration of salaries in a construction company

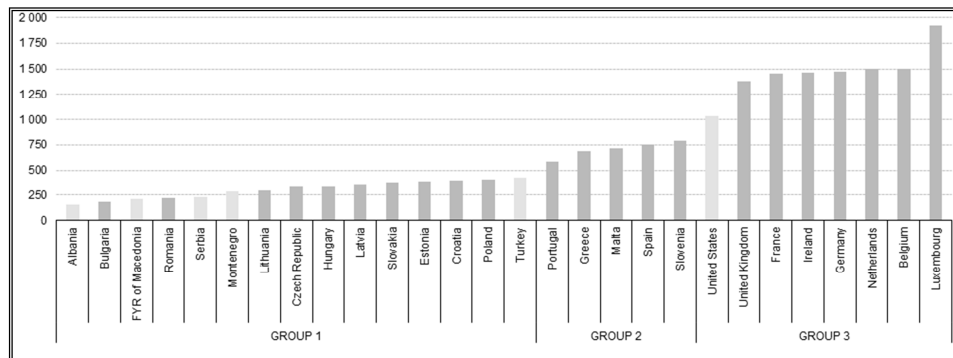
According to Eurostat, in January of 2015, 22 of the 28 EU Member States (Denmark, Italy, Cyprus, Austria, Finland and Sweden were the exceptions) had a national minimum wage. From 1 January 2015 the monthly minimum wages varied widely, from 184 EUR in Bulgaria to 1923 EUR in Luxembourg. In the following EU candidate countries like: Albania, Montenegro, the Former Yugoslav Republic of Macedonia, Serbia and Turkey there is also a national minimum wage system.

Next figure reflected gross minimum monthly wages expressed in euro in 2015. The countries are divided into three groups according to their level in terms of the minimum wage. The first group comprises countries where minimum wages were below 500 euro per month: this group being composed of five candidate countries and ten EU Member States (Bulgaria, Romania, Lithuania, Czech Republic, Hungary, Latvia, Slovakia, Estonia, Croatia and Poland).

The second group comprises five EU Member States (Portugal, Greece, Malta, Spain and Slovenia), each having an intermediate level of minimum wages ranging from EUR 500 to less than EUR 1 000 per month, and the last

group comprises seven EU Member States (UK, France, Ireland, Germany, Netherlands, Belgium and Luxembourg), the national minimum wage was EUR 1 000 or more per month.

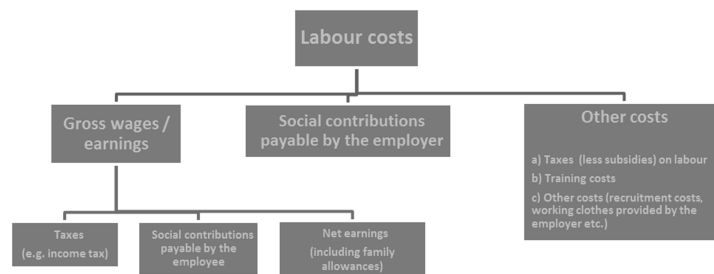
It should be pointed out that some EU Member States outside the euro area that have minimum wages like Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania and the United Kingdom as well as Albania, the former Yugoslav Republic of Macedonia, Serbia and Turkey, classification levels and minimum wages expressed in euro are affected by exchange rates.



**Figure no. 1** Minimum wages, January 2015, euro/month

Source: Eurostat

Labor cost consists in salary costs, plus non-wage costs, such as employers' social contributions and other costs reflected in the next figure:



**Figure no. 2** The costs of labour

Source: Eurostat

The share of labor costs for the whole economy in 2014 according to Eurostat was 24.4% in the EU-28, while the euro area, it amounted to 26.1%. Also, the percentage of non-wage costs varies considerably from one EU Member State to another.

The highest rates of non-wage costs for the whole economy were registered in France (33.1%), Sweden (31.6%), Italy (28.2%), Lithuania (28.0%), Belgium (27.8%) and the Czech Republic (27.1%). The lowest levels of non-wage costs for the whole economy were registered in Malta (6.9%), Denmark (13.1%), Ireland (13.5%), Luxembourg (13.6%), Croatia (14.9%) and Slovenia (15.7%).

To present the salary situation in Romania, we conducted a case study based on data provided by a company operating in the construction sector. In a construction company usually, the following categories of employees are hired:

- **In the top management :** Administrator, General Manager; ;
  - CEO;

- Economic manager;
- **Billing compartment:** functional staff
- **Transport / acquisitions compartment:** acquisitions chief, drivers
- **Qualified personnel:**
  - **engineers**
  - foramen;
  - carpenters;
  - builders;
  - Painters;
- **Unqualified personnel:** Unqualified workers

Organization chart serves to highlight the top management compartment, the hierarchy between departments and functional relationships established between structures.

Synthetic accounting staff settlements are made using group 42 "Payroll and similar accounts". Synthetic accounting of settlements with insurance and social protection budget is made using accounts in Group 43 "social insurance, social security and similar accounts" and Group 44 "The state budget, special funds and similar accounts".

The cost accounting wage settlements is performed using the "payroll" items of calculation and settlement of labor rights to these data are summarized as follows:

**Basic gross salary**

+ Benefits and additions

+ Top management + benefits

+ Indexing of wages (for price increases)

+ Salary in nature

+ Other salary rights

**= TOTAL RIGHTS gross salary (GS)**

- Staff contributions to social security ( $10.5\% \times \text{GS}$ )

- Employee contribution to social health insurance ( $5.5\% \times \text{GS}$ )

- Staff contributions to the unemployment fund ( $0.5\% \times \text{GS}$ )

- Payroll tax ( $16\% \times \text{Calculation}$  is determined by applying the personal deduction)

- Deductions for third parties

- Deductions for entity

- Advances to employees

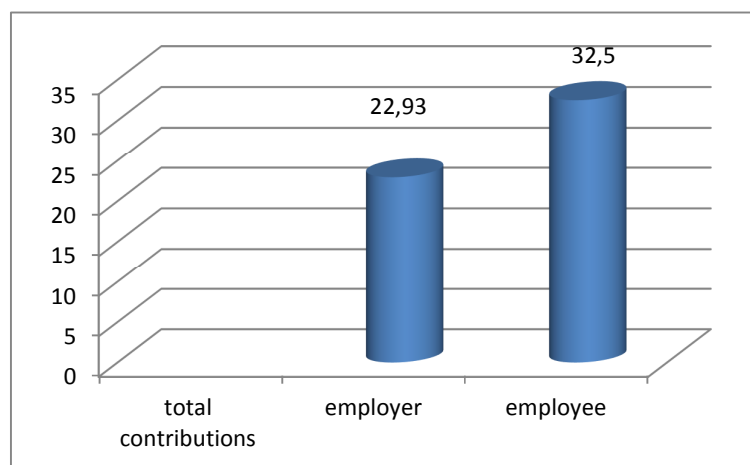
**= TOTAL NET WAGE PAYMENT RIGHTS**

For the salaries owed to staff, the company owes the State Budget following contributions:

**Table no.1** Contributions to the state budget for staff salaries

Type	Percent %	
	Employer	Employee
□ <b>Social security</b>	15,80	10,50
□ <b>Social health insurance</b>	5,20	5,50
□ <b>Payroll tax</b>		16,00
□ <b>Unemployment fund</b>	0,50	0,50
□ <b>Work accidents fund</b>	0,325	
□ <b>Medical Days fund</b>	0,85	
□ <b>Debt wages guarantee fund</b>	0,25	

In the following figure are presented, in graphic terms, the contributions due to the State Budget, expressed in percentages:



**Figure no. 3** Total contributions Employer/Employee

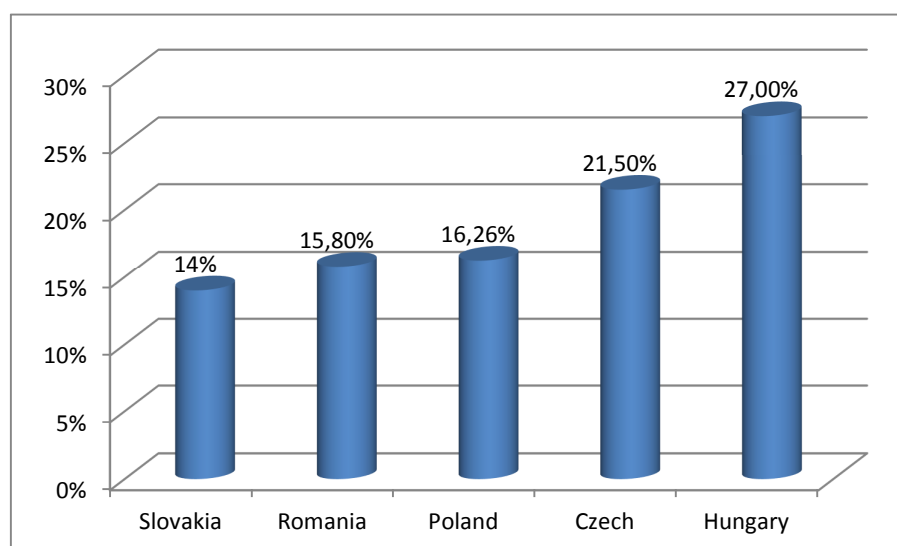
Source: own calculation

The reduction of CAS by five percentage points was a decision included in Law no. 123/2014 on amending the Tax Code and it is applicable since October 2014.

The CAS reduction by five percentage points for the employers, from 20.8% to 15.8% currently, placed Romania second in the region in terms of lower social security costs, after Slovakia, where employers' contribution is currently 14%.

Next, in the top of social security costs in the EU region lies Poland, with a contribution of 16.26%, followed by the Czech Republic, with a percentage of 21.5%, and Hungary with 27% for payment of pensions.

In the next figure we present the level of contribution to the pension system:



**Figure no. 4** Total contributions Employer

Source: Eurostat

Despite the reduction of CAS by 5% for employers, Romania still registers one of the largest pension contributions paid by employees in the EU region of 10.5% compared to the Slovaks or Czechs who have a retention rate of only 4% and respectively 6,5%. The highest costs of pension payments in the region are registered in Poland where an employee contributes monthly with 11.26% of gross salary for the social security system.

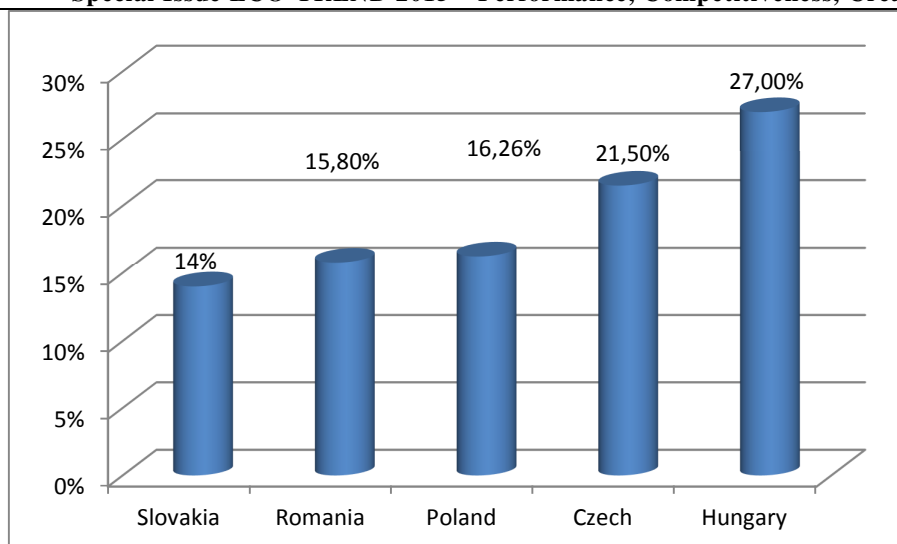


Figure no.5 Total contributions Employee

Source: Eurostat

Employee contributions withheld and paid by the employer through the system called "withholding". From an accounting perspective, wages in the construction company are registered as follows:  
Example for the expenditures made by the construction company:

1) Registration of the <b>staff salaries</b>		
641	=	421
"Expenditure related to staff salaries"		"Personal - wages owed"
2) Registration of <b>Social security</b>		
6451	=	4311
"Expenditure related to Social security"		„ social security contribution unit"
3) Registration of <b>Unemployment fund</b>		
6452	=	4371
"expenditures related to the Unemployment fund"		„ Unemployment fund contribution"
4) Registration of <b>Debt wages guarantee fund</b>		
635	=	447
„expenditures related to other taxes"		„special funds"
5) Registration of <b>Social health insurance:</b>		
6453	=	4313
"Expenditures related to Social health insurance"		„ Social health insurance Contribution"
6) Registration of <b>Work accidents fund:</b>		
635	=	447
„expenditures related to other taxes"		„special funds"
7) Registration of <b>medical days fund:</b>		
635	=	447
„expenditures related to other taxes"		„special funds"

Example for the "withholding" system, de registration is:

Table no. 2 Withholding system

No.	Operation	Account symbol	
1	Retaining from salary	421	%
*	Payroll tax		444
*	Unemployment fund		4372
*	Social security		4312
*	Social health insurance		4314

As can be seen, payroll accounting is a complex system in Romania. In making the accounting records we must take into account the level of contributions that we owe to the state budget and social insurance budget and, most important, we must take into account the particular situation of each employee.

### 3. Conclusions

Rewarding employees is an important tool for the managers which influence the efficiency of a company's business. The transition from centralized economy to a market economy requires major changes in reward the company's human resources. Before the crisis which has affected the sector, wages in construction were among the highest in the economy but nowadays the situation is different.

Although wages in our country change almost every year, accounting records remain the same.

Reducing CAS puts pressure on the pension budget that continues to be in deficit. Last year for example, the state collected insurance contributions up to the amount of 54.5 billion lei, while expenditures for social assistance amounted to 68.3 billion lei, with 13, 8 billion lei more, as we can see from the report on budget execution in 2013.

More over, in the first four months of the year 2015, social security gathered 12.6 billion lei, while expenditures on social assistance payments amounted to about 17 billion lei, according to the latest data available.

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