SEA - Practical Application of Science
Volume I, Issue 1 (1), 2013

Izabella KRÁJNIK
Endre GÖNCZ
Babeș-Bolyai University Cluj-Napoca

THE ROMANIAN ACCOUNTING FIELD OF BENEFITS FRAMEWORK

Keywords
Accounting
Benefits
Employees
Pensions

JEL classification
M41

Abstract

This paper contains summaries of theories with notions of social insurance and mathematics with a high degree of novelty and complexity. The pension systems around the world are experiencing a period of crisis.

Under these conditions, the study aims to describe the previous or anticipated changes happened and are happening in order to conceive then correct as a coherent field of pensions.

The accounting field of benefits offered to employees, both in the academia and in practice, has always been and remains to this day an extremely controversial issue - accounting is the tool of knowledge of economic reality (Matiş D., 2005), because the information provided by the two branches of accounting – financial accountability and managerial accountability – underlie decision-making processes within each society. Beyond these aspects of theory and practice analysis of employees' benefits -field that is continuously and constantly evolving- this study represents an applied research on the difficulties encountered particularly in the application of IAS 19 "Employee Benefits"

Focusing our attention on how the term "employee benefits" is perceived, processed and recommended to be presented in the financial statements, there were outlined the first conceptual differences regarding the enunciation of the concept of employee benefits IAS 19. Thus, according to international financial reporting standards, the advantages accorded to employees include benefits provided to them or to their dependents and these can materialize by payments (or the provision of goods and services) made either directly to the employees, their spouses, children or other dependents or to other companies, such as insurance companies.

Adoption of IAS 19 Employee Benefits (2004) allows a choice between three accounting methods relating to the recognition of actuarial gains and losses of defined benefit plans: profit or *loss method,* equity - *the recognition method a*nd *corridor method.*

Our motivation to write about the benefits of employees is based on the fact that I consider this an important topic of academic and economic interest. Being a rather interesting topic we found a great interest especially due to the fact that it raises many questions. My intention is to analyze and present the subject in order to give more possible answers regarding the appearance, operation, structuring, evaluation and management of these employee benefits.

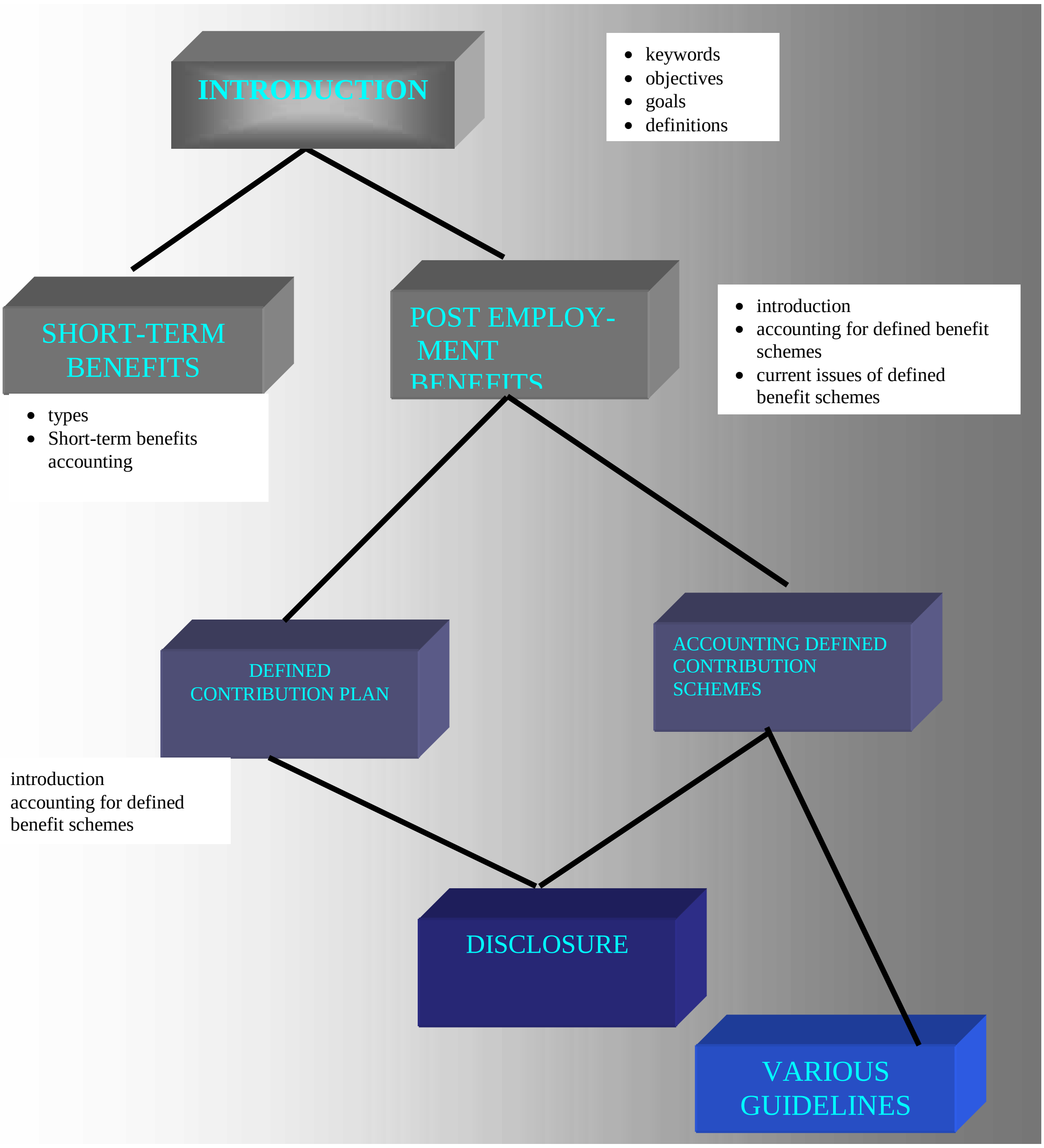
IASB agrees that a fundamental review of accounting for post-employment benefits is necessary. However, it is possible that such a review take longer to complete. Meanwhile, the IASB believes it would be wrong to ban a method of recognizing actuarial gains and losses that is accepted by national normalizator of standards and which provides transparent information regarding the costs and risks of the development of defined benefit plan.

IASB agrees that the new option could lead to a divergence from U.S. GAAP. However, although U.S. GAAP and IAS 19 have the same basic approach, they are different in many respects. IASB decided not to deal with these problems now. Moreover, exactly this is the option. No company is required to create such a divergence.

Thus IASB does not agree that the delayed recognition is better than immediate recognition of actuarial gains and losses. Values which are recognized according to the deferral method are opaque, they are not reliable in a representative way, and including the deferral methods these would create a complex and difficult standard.

These can be recognized in the income, usually over a period representing the remaining expected average of employees' work participating in the defined benefit scheme. Alternatively, as a result of an amendment to IAS 19 in January 2011, companies have an option to recognize actuarial gains and losses as soon as they occur, outside profit or loss in the statement of "Recognized income and expense" (similar to treatment in accordance with SFAS 87). In addition, while SFAS 87 requires that pension assets and liabilities to be presented from the deferred net tax, this presentation is not permitted according to IAS 12.

Fig. 1. The defining elements of IAS 19



Source: adaptation after Cotlet, 2009

The study on comparability regulations of IAS 19 Employee Benefits and OMFP 3055/2009 in Romania and Hungary Law CXVII-1995 is based on a model developed by researchers J. Strouhal, D. Matiş and C.Bonaci, and it has to be taken into consideration the fact that in this case it has been applied the method of measuring the degree of similarity with the account of the methods and issues contained in the study. Thus, we opted solely for calculating the index GA (Mutual Absorption eng. HD Index - Harmonization Degree Index), which basically examines whether or not the items are addressed in the current international accounting rules, thus highlighting the degree of harmonization of international accounting methods and treatments. Another important clarification relates to items marked with "X" in the sense that they were totally excluded from the calculations. Depending on their values, the table data can undergo some changes, but these are relatively small.

Next, we present in the following table the analysis of the IAS 19 regulations in Romania.

Tab. 1. ***Analysis IAS 19 accounting regulations / RO legislations and calculation of coefficients***

Elements analyzed	**IFRS**	**Regl RO**	**S_{ij}**	**D_{ij}**
A. Pension plans evaluation				
Investment income	1	1	0.67	0.33
Net increase in market's value of investments	1	0		
Interest and dividends	1	1		
Total income from investments	1	1		
Employers' contribution	1	1		
Members'(participants) contributions	1	0		
B. Recognition of plan assets				
Net assets of the reporting period	1	1	1	0
Net assets available for payment of pensions	1	1		
C. Wages design methods				
Net receipts from pension plans of other international organizations for transferred members	1	1	1	0
The amount of benefit that employees have earned in return for their service in the current period	1	1		
D. Coverage of cost accounting and subsequent amendments				
Paid pensions	1	1	0.67	0.33
Payments transferred to another fund	1	1		
Contributions, withdrawn payments and paid interests to previous members at withdrawal	0	1		

Source: Model adapted from researchers: Strouhal, J., Matiş D. şi Bonaci C.

The degree of similarity

$\boldsymbol{S_{ij} = a / (a + b + c)}$

The degree of diversity / dissimilarity

$\boldsymbol{D_{ij} = (b + c) / (a + b + c)}$

A) Evaluation

$S_{ij} = 4 / (4 + 1 + 1) = 4 / 6 = \mathbf{0.67}$

$D_{ij} = (1 + 1) / (4 + 1 + 1) = 2 / 6 = \mathbf{0.33}$

* The results were obtained through the approximation to two decimal places

$\mathbf{S_{ij} + D_{ij} = 1}$

From the point of view of recognizing pension plans, note that there are differences between international standards and domestic regulations regarding the pension system.

$\boldsymbol{S_{ij} = 0.67}$

$S_{ij} + D_{ij} = 1$

$D_{ij} = 0.33$

Realizing the average coefficients on the first issue, we note that it coincides with the coefficient, ie 0.67 for similarity and 0.33 for diversity.

B) Recognition

$S_{ij} = 2 / (2 + 0 + 0) = 2 / 2 = \mathbf{1}$

$D_{ij} = \mathbf{0}$

$S_{ij} + D_{ij} = 1$

Elements recognition can be made to the current period of credit and net assets available for payment of pensions, versions accepted by both referentials, so the similarity is maximal (no differences).

$S_{ij} = 1 / (1 + 1 + 0) = 1 / 2 = \mathbf{0.5}$

$D_{ij} = (1 + 0) / (1 + 1 + 0) = 1 / 2 = \mathbf{0.5}$

$S_{ij} + D_{ij} = 1$

Regarding the subsequent assessment both regulations recommend the payment of pensions, and in addition to Romanian law, IFRS admits the reporting period, which determines the degree of similarity / difference of 50%.

$S_{ij} = (1 + 0.5) / 2 = \mathbf{0.75}$

$S_{ij} + D_{ij} = 1$

$D_{ij} = (0 + 0.5) / 2 = \mathbf{0.25}$

Calculating the average coefficients, and considering that the two issues have the same weight / importance, we obtain the above values, which suggest that there is a high degree of harmonization (75%) between referentials in terms of valuation of intangible assets.

C) Projection

$S_{ij} = 2 / (2 + 0 + 0) =2 / 2 = \mathbf{1}$

$D_{ij} = 0$

The models for determining the net proceeds of pension plans for transferred members of international organizations also requires a degree of similarity / difference of 50%, since both accept and use the value of the benefit regulations.

D) Accounting reflection

$S_{ij} = 2/ (2 + 0 + 1) = 2 / 3 = \mathbf{0.67}$

$D_{ij} = (0 + 1) / (2 + 0 + 1) = 1 / 3 = \mathbf{0.33}$

In the context of accounting reflection we observe that 2 out of 3 are common, so the degree of similarity is 67%, while the contributions, withdrawn payments and the paid interests to previous members at withdrawal are mentioned only by national referentials (33% degree of diversity).

$S_{ij} = (0.5 + 0.75) / 2 = \mathbf{0.625}$

$S_{ij} + D_{ij} = 1$

$D_{ij} = (0.5 + 0.25) / 2 = \mathbf{0.375}$

Average coefficients calculated on this issue, considering the two issues equal as importance, is more in favour of similarity between regulations than diversity.

$\overline{S}_{ijTOTAL} = (0.67 + 0.75 + 0.625) / 3 = \mathbf{0.68}$

$\overline{D}_{ijTOTAL} = (0.33 + 0.25 + 0.375) / 3 = \mathbf{0.32}$

* * The results were obtained through the approximation to two decimal places

$\overline{S}_{ijTOTAL} + \overline{D}_{ijTOTAL} = 1$

Tab. 2. ***Analysis IAS 19 accounting regulations / RO legislations and calculation of coefficients***

Elements analysed	**FRS**	**Regl HU**	**S_{ij}**	**D_{ij}**
A. Pension plans evaluation				
Investments income	1	1	**1**	**0**
Net increase in market's value of investments	1	1		
Interests and dividends	1	1		
Total income from investments	1	1		
Employers' contribution	1	1		
Members'(participants) contributions	1	1		
B. Recognition of plan assets				
Net assets of the reporting period	1	1	**1**	**0**
Net assets available for payment of pensions	1	1		
C. Wages design methods				
Net receipts from pension plans of other international organizations to transferred members	1	1	**0,5**	**0,5**
The amount of benefit that employees have earned in return for their service in the current period	0	0		
D. Accounting reflection of subsequent costs and amendments				
Paid pensions	1	1	**0.67**	**0.33**
Payments transferred to other fund	1	1		
Contributions, withdrawn payments and paid interests to previous members at withdrawal	0	1		

Source: Model adapted from researchers: Strouhal, J., Matiş D. şi Bonaci C..

Calculations made for IFRS and HU Regulation show us the fact that the subsequent evaluation of pensions funds and models for determining the depreciation share the degree of similarity of 100%. On the other hand, there are cases in which the methods are found in both sets of rules at a rate of 100% - the stage of *recognition*, or wages design methods (50%) - the diversity being quite small in that situation.

Tab. 3. ***Analysis IAS 19 accounting regulations / RO legislations and calculation of coefficients***

Elements analysed	Regl RO	Regl HU	S_{ij}	D_{ij}
A. Pension plans evaluation				
Investments income	1	1	1	0
Net increase in market's value of investments	0	1		
Interests and dividends	1	1		
Total income from investments	1	1		
Employers' contribution	1	1		

Members'(participants) contributions	0	1		
B. Recognition of plan assets				
Net assets of the reporting period	1	1	1	0
Net assets available for payment of pensions	1	1		
C. Wages design methods				
Net receipts from pension plans of other international organizations to transferred members	1	1	0,5	0,5
The amount of benefit that employees have earned in return for their service in the current period	1	0		
D. Accounting reflection of subsequent costs and amendments				
Paid pensions	1	1	0.67	0.33
Payments transferred to other fund	1	1		
Contributions, withdrawn payments and paid interests to previous members at withdrawal	0	1		

Source: Model adapted from researchers: Strouhal, J., Matiş D. şi Bonaci C..

The explanation for this is precisely due to the recognition rate options or wages design methods. In the first aspect mentioned, there are three common elements (Pensions paid, Payments transferred to another fund, contributions, withdrawn payments and interest paid to previous members at withdrawal) regarding net assets of the reporting period available for the payment of pensions, and for the two types of regulations in the case of employees' contributions also, including a set of methods (linear, digressive, the production unit) representing both IFRS and RO and HU regulation. Regarding the initial assessment, national and international regulations include the same set of methods. Therefore, in this case, the degree of diversity is zero, whereas the similarity is the highest.

Assuming we calculate an average of the Jaccard coefficients for the whole problem, considering the importance (and weight) of the three issues to be equal, we obtain a value of 68% for similarity, which means that on accounting issues related to pension funds there is a tendency to harmonize. There is a risk that the fund will be insufficient to pay the pension, if this happens then the company will have to provide for any shortfall (for example, plans, when an employee is guaranteed a specified return). The company will determine the cash, which then will be invested to earn a return and this will enable the company to grow and meet their future obligations.

IAS 19 Amendment currently has reservations on employee benefits in respect of actuarial gains and losses delay. It is considered that deferred recognition is in opposition to its own framework document. IASB intends to undertake a major project on accounting for retirement benefits.

Of interest to users of financial statements is information about defined benefit plans because users will not have information disclosed by the company from which they can estimate the nature and size of defined benefit obligations and assess the risks associated with these obligations. Provisions of information presentation are based on the following principles:

- The most important information about employee benefits is that regarding the uncertainty associated to the assessment obligations and employee benefit costs and the potential consequences of this uncertainty over future cash flows;

- employee benefit schemes are often complex, which means that it is particularly important that disclosures be clear, concise and relevant
- Given that there are many views on the treatment of actuarial gains and losses and past service cost, provisions on disclosure should highlight their impact on the income statement and the impact of any unrecognized actuarial gains and losses and unamortized costs of previous services on the balance
- Benefits generated by information should be higher than their providing cost.

All employee benefits, both short-term benefits and long term, should be represented to ensure that an employer's statements reflect a liability in financial terms, when employees worked in exchange for future benefits.

The new accounting issues raised are the accounting and disclosure for employee benefits, especially long-term benefits.

Regarding disclosure for post employment benefits - defined contribution plans, the company must present the recognized value as an expense for defined contribution plans.

Considering the comparative analysis between Romania and Hungary regulations recognition policy we mention that these are tempted to use the net assets of the reporting period and the net assets available for payment of pensions to 100%.

Bibliography

[1] Ding, E. M. (2007). *Communications and cost-benefit aspects of employee safety*. Management Accounting;
[2] Disney, Richard, (2009). *OECD Public Pension Programmes in Crisis: An Evaluation of the Reform Options*. Social Protection Unit, Human Development Network, The World Bank;
[3] Dobrescu, S. Şeitan M, (2008). *Pensii private*, Editura Juridică, Bucureşti;
[4] **Krájnik, I.,** Olteanu, L.**,** (2010), *Pensions Accounting In Romania Under International Financial Reporting Standards*, Studia Universitatis Vasile Goldis Arad, Seria Stiinte Economice Anul 20/2010 Partea I, P.337 – 347
[5] **Krájnik, I.,** Foszto M., (2010), *Economic aspects of social security. Pension system*, Conferinţă Ştiinţifică – Relevanţa educaţiei şi cercetării în dezvoltarea afacerilor şi protecţiei mediului, Presa Universitara Clujeana;
[6] Martin, J. M. (2010). *Rate-regulated enterprises and mandated accounting changes: The case of electric utilities and post-retirement benefits other than pensions (SFAS No. 106).* The Accounting Review;
[7] Pankucsi, A. G. (2010). *Sales incentives aligned to company objectives*. N.A.C.A. Bulletin;
[8] Spiecker,J. (2010), *The impact of using the full corporate bond yield curve on accounting for Defined Benefit Plans according to the International Accounting Standard 19*, Delloite;
[9] Wall, P. S. and R. Colvard. (2010). *No accounting for misconduct: Postemployment benefits under SFAS 112 and related legal concerns*. The CPA Journal;
[10] Xia, A., Kimberly B, Delios A. (2009). *Alternative approaches to the employee-organization relationship: Does investment in employees pay off?* The Academy of Management Journal;