Employee Benefits - Definition, Role, Recognition and Evaluation

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Abstract

The assurance degree with the human resources, material and financial, and the efficiency with which they are used, are reflected in the company's financial and economic performance, strength and its ability to meet increasingly diversified requirements, complex and acute of the market.

But it is not enough to have the human resources; they must be adequately motivated by the profits. Moreover, the motivation must be closely linked to the performance. For this, it is required to the managers:

1. To follow the additional reasoning leading to the better performance;
2. Remember that additional resources allocated to the motivation does not mean solving of the automatic problem, rather they have to consider correctly allocating of these resources and the permanent relationship between motivation and performance.

In addition to the motivation items, in this article, I found necessary to emphasize the aspects of recognition, evaluation and accounting for the employee benefits under IAS 19 "Employee Benefits". We also presented the evolution of the average wage earnings in Romania in 2010 and 2011.

Keywords: employee benefits, motivation, performance recognition and evaluation of the benefits,
Introduction

Each person works for the various reasons. They are as individual as people. However, we all work to get something that we need or to have an impact on the morale, motivation and the quality of our life.

On the other hand, to achieve the objectives, the managers must also coordinate the work and achieve the effective and real participation of the people in its execution.

Managers turn the decisions into the actions through an essential function of the management, that of training and motivation, which we call simply the function of reasoning. Thus, for serving as training and motivation of the employee, the organization managers have the task of determining the subordinates to understand that using their own potential as well, can contribute both to own and organizational goals.

Thus, the problem of identifying the psychological processes underlying the human behaviour described above. It's about the motivation, a factor with many non-financial connotations.

The Employee Motivation - Connection With The Performance

According to the Explanatory Dictionary of Romanian language, the motivation represents all the reasons or motives (conscious or not) that causes someone to perform a particular action or to strive for the certain purposes. [Romanian Academy – “Iorgu Jordan” Institute of Linguistics]

In this sense, the managers need to understand the following:

- the members of the organization fulfil the different roles, which marks their needs and behaviour;
- each member has a unique individuality, which distinguishes it from others: potential interests, ambitions, behaviour, so it becomes necessary to treat the employees differently;
- The boss-subordinate relationships should be governed by the principle of loyalty;
- each member of the organization should be treated differently, depending on his personality: character, temperament, knowledge, skills and so on;
- The foundation of the involvement is the motivation.

The motivation concept, in its managerial context, means all the individual factors and forces that are responsible for the implementation of some actions, performance and endurance levels of the employees in the workplace. Connection between the performance of the employees and their motivation is obvious. You can get a higher constant level of the performance only through the effective motivating of your employees. For this, it requires that managers:
1. To follow that additional reasoning to lead to the better performance;  
2. To remember that the additional resources allocated to the motivation does not mean to solve automatically the problem, rather they have to take in consideration a correct allocation of these resources and a permanent monitoring of the relationship between the motivation and performance.

Because the performance of an organization is the sum of the individual performance of the employee and the individual performance depends on motivation, professional ability and the image that the employee has about his job, it is resulted the importance that must be given to this function to improve the level of the organizational performance.

Depending on the type of stimulants that are offered to an individual at the work we identify two types of motivation: [Emilian, R., and others].

1. The intrinsic motivation – on the base of motivation there are internal factors, such as: personal satisfaction, pleasure to do right things, and so on, it derives from the relationship that is established directly between the individual and the task performed, resulting as a consequence of the action of the individual himself;
2. The extrinsic motivation – on the base of the motivation there are external factors such as: higher salary, allowances, bonuses, etc. It is derived from the individual contact with the external environment of the task, resulting as a consequence of the action of the other individuals.

The rewards include not only the financial rewards (variable or fixed salary and have some benefits which together make up the total compensation) but also the non-financial rewards, such as: recognition, responsibility, achievement and development etc.

Motivation may consist of a better salary in a higher position (or at least perceived as) on the organization scale, on the better working conditions, having the safe job, or an own office and a car provided by the company etc.

In an attempt to a quasi-exhaustive enumeration, the reward system would consist of:

<table>
<thead>
<tr>
<th>a) Direct Rewards</th>
<th>b) Indirect Rewards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>Protection programs</td>
</tr>
<tr>
<td>Merit salary</td>
<td>- Medical insurance</td>
</tr>
<tr>
<td>System of incentives:</td>
<td>- Life insurance</td>
</tr>
<tr>
<td>- awards,</td>
<td>- Accident insurance</td>
</tr>
<tr>
<td>- commissions,</td>
<td>- incapacity for work insurance</td>
</tr>
<tr>
<td>- salary in the private treaty, progressive agreement, etc.</td>
<td>- retirement</td>
</tr>
<tr>
<td>- additions and salary allowances</td>
<td>- prime of retirement</td>
</tr>
<tr>
<td>- Purchase of shares</td>
<td>- protection (social security)</td>
</tr>
<tr>
<td>Payment for the not worked time</td>
<td></td>
</tr>
</tbody>
</table>
Definition, Accounting, Recognition And Evaluation Of The Benefits

From an accounting perspective, we consider that the most comprehensive definition of the employee benefits was surprised by the International Accounting Standard IAS 19, which indicates that: "The employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees". Also, IAS 19 identifies and classifies these benefits into five categories namely: short-term employee benefits, post-employment benefits, other long-term benefits, benefits for the employment termination contract, compensation in the form of the equity participations.

(1) Short-term employee benefits include the following items:

(a) Allowances, salaries and social security contributions;

(b) Short-term compensated absences (such as paid annual leave and paid medical leave), where the absences are expected to occur within twelve months after the end of the period in which the employees render the related service;

(c) Profit participations and bonuses payable within twelve months after the end of the period in which the employees render the service, and,

(d) Non-monetary benefits (such as medical care, housing, cars and goods or free services, or subsidized) for the current employees.

- Profit sharing Systems such as "deferred payment"
  - Purchase of shares
  - Distribution of the profits at the end of the year
  - savings plans

- Vacations
- Holidays
- medical leave
- anniversary
- lunch break
- travel time

Service and other rewards
- leisure facilities
- car service
- financial advice
- payment of schooling
- unpaid leave
- protective equipment
- payment of transportation
- free meals
- specific services
Accounting for the short-term employee benefits is generally simple because there are not required the actuarial assumptions to evaluation the obligation or the cost and there is not the possibility of such an actuarial gain or loss. Moreover, the obligations for the short-term employee benefits are evaluated on an undiscounted basis.

Recognition and evaluation of the benefits

When an employee has rendered a service to an enterprise during an accounting period, the enterprise should recognize the undiscounted amount of the short term employee benefits, expected to be paid in exchange for that service:

(a) As a debt (accrued expense), after deducting any amount that was already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an enterprise must recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in the future payments or a cash refund, and

(b) As an expense, unless another Standard International Accounting recommend or permit including the benefits in the cost of an asset (see, for example, IAS 2, Inventories, and IAS16 Tangible Assets).

(2) Post-employment benefits include, as IAS 19 exemplified:

(a) Withdrawal benefits, such as retirement, and

(b) Other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Contracts under which an entity provides the post-employment benefits are the post-employment benefit plans. An enterprise applies this Standard to all such contracts, whether they involve or not the establishment of a separate entity to receive the contributions and to pay the benefits.

IAS 19 differentiates in the post employment benefits the defined contribution plans by the defined benefit plans. This difference is influenced by the economic substance of the plan as derived from the terms and the principal conditions.

In the case of the defined contribution plans:

(a) The legal or constructive obligation of the company is limited to the amount that decides to contribute to the fund.

Thus, the post-employment benefits received by the employee is determined by the amount of the contributions paid by an enterprise (and perhaps, also, by the employee) to a post-employment benefit plan or an insurance company, together with the investment income, arising from the contributions, and therefore,
(b) Actuarial risk (that the benefits will be less than expected) and investment risk (that, as the invested assets are insufficient to generate the expected benefits) fall on the employee.

Examples of cases where a company's obligation is not limited to the amount that decides to contribute to the fund are those in which the company has a legal or constructive obligation through:

(a) A plan benefits formula that is not linked exclusively to the amount of contributions;

(b) A guarantee, either indirectly through a plan, or directly, of a specified profitability of the contributions; or

(c) Those informal practices that give rise to a constructive obligation.

*For example*, a constructive obligation may arise when an enterprise has a history which proves they increase usually the benefits for the former employees to keep up with the inflation, even if it has no a legal obligation to do so.

Based on *defined benefit plans*:

(a) The company has the obligation to provide the agreed benefits to the current and former employees; and

(b) The actuarial risk (that benefits will cost more than expected) and the investment risk fall into the merits of the company. If the actuarial or investment experience is worse than expected, the company obligation can grow.

**Recognition And Evaluation Of The Post-Employment Benefits**

With regard to *defined contribution plans*, an entity recognizes the contributions to a defined contribution plan as an expense when an employee has provided a service in exchange for those contributions. If the contributions are not payable within 12 months after the accounting period in which the services were provided, they must be discounted. [Hernia van Greuning, 2011].

With regard to the defined benefit plans, the following rules are applied:

- An entity determines the present value of the defined benefit obligations and the fair value of any plan assets with sufficient regularity.
- An entity must use the method of the projected unit credit to evaluate the present value of its defined benefit obligations and the cost of the current and the past services. This method recognizes each period of service as giving rise to a right for an additional unit of benefit and measures separately each unit to build up the final obligation.
The actuarial impartial assumptions and mutually compatible must be used at the
demographic variables (eg, the speed of replacement and the employees mortality) and
the financial variables (such as future increases in salaries and certain changes in
benefits).

The difference between the fair value of any plan assets and the accounting value of the
defined benefit obligation is recognized as a debt or as an asset.

When it is almost certain that another party will reimburse some or all of the
expenditure required to extinguish the defined benefit obligation, an entity must
recognize its right to reimbursement as a separate asset.

Compensation for assets and debts belonging to the different plans is not allowed.

Total net of the current service cost, the interest cost, the expected return of the plan
assets and any rights to refund, actuarial gains and losses, the past service cost and the
effect of any discounts and the settlement plan must be recognized as an expense or
income.

There are recognized the past service cost over the average period until the moment
when the rectified benefits begin to be received.

There are recognized gains or losses because the discounts and the settlement of a
defined benefit plan when discounts and the settlement occurs.

There is recognized a specified proportion of the net cumulative actuarial gains and
losses that exceeding the greater value between:

- 10% of the present value of the defined benefit obligation (before deducting of
  the plan assets), and
- 10% of the fair value of any plan assets.

The minimum proportion that must be recognized for each defined benefit plan is the excess
that comes out of limit "corridor" of 10% in the previous reporting date, divided by the forecast
average remaining working time of employees participating in the plan. It is allowed the earlier
recognition of these gains or losses. [Hernia van Greuning, 2007]

(3) Other long-term benefits, as IAS 19 exemplified, include:

(a) Long-term compensated absences, such as the departures after a long-service or the
long-term departures, with and without employment guarantees;

(b) Jubilee or other long-term benefits;

(c) The benefits for the long-term unavailability;

(d) participation in profits and payable bonuses over a period of twelve months or more
after the period in which the employees provides the service concerned, and

(e) Deferred compensation paid during a period of twelve months or more after the end
of the period in which they are earned.
Evaluation of other long-term benefits is not usually a subject to the same degree of uncertainty like the evaluation of the post-employment benefits. Furthermore, the introduction or modification of other long-term benefits cause rarely a significant amount of the past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term benefit. This method differs from the accounting required for post-employment benefits as follows:

(a) Actuarial gains and losses are recognized immediately and it is not applied a "corridor"; and

(b) The past service cost is recognized immediately in full.

Recognition and Evaluation

The amount recognized as a debt for the long-term benefits must be the net total of the following amounts:

(a) The present value of the defined benefit obligation at the date of the balance sheet;

(b) Minus the fair value at the date of the balance sheet of the plan assets (if any) out of which the obligations are to be paid directly.

(4) Benefits for the employment termination contract

This Standard treats the benefits for the employment termination contract separately from other benefits because the event which gives rise to an obligation is the employment termination contract rather than the employee service.

Recognition and Evaluation

An entity must recognize benefits termination of the employment when, and only when, the entity is demonstrably engaged through a detailed formal plan to:

- terminate the employment contract of an employee or group of employees before the normal retirement date, or
- To provide benefits for the termination of the employment as a result of an offer made in order to encourage the voluntary departure in unemployment.

The benefits for the termination contract which are eligible within more than 12 months after the date of the balance sheet will be updated. [Hernia van Greuning, 2011]
(5) Compensation in the form of the equity participations

Compensation in the form of the equity participations, including benefits like:

(a) shares, options on the shares and other equity instruments issued to the employees at a lower price than the fair value at which those instruments would be issued by a third party, and

(b) Cash payments whose value will depend on the future market prices of the reported actions of the enterprise.

Situation Of The Salary Benefits In Romania

Based on statistics published by the National Statistics Institute we present in the table no. 1 the evolution of the average salary earnings in 2010-2011.

Table no. 1 Evolution of the average salary earnings in 2010-2011.

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Earning</th>
<th>01</th>
<th>02</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>08</th>
<th>09</th>
<th>10</th>
<th>11</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Gross nominal average salary earning</td>
<td>1967</td>
<td>1940</td>
<td>2074</td>
<td>1973</td>
<td>1962</td>
<td>1951</td>
<td>1868</td>
<td>1846</td>
<td>1846</td>
<td>1846</td>
<td>1900</td>
<td>2067</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net nominal average salary earning</td>
<td>1426</td>
<td>1411</td>
<td>1509</td>
<td>1436</td>
<td>1428</td>
<td>1422</td>
<td>1355</td>
<td>1339</td>
<td>1340</td>
<td>1340</td>
<td>1377</td>
<td>1496</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net nominal average salary earning</td>
<td>1424</td>
<td>1414</td>
<td>1493</td>
<td>1498</td>
<td>1458</td>
<td>1472</td>
<td>1471</td>
<td>1455</td>
<td>1464</td>
<td>1457</td>
<td>1491</td>
<td>1604</td>
<td></td>
</tr>
</tbody>
</table>

Source: http://www.insse.ro/cms/files/statistici

During the year, we notice that there are fluctuations of the salary earning, mainly determined by the annual awards and the holiday bonuses (December, March / April). These influence the increases and decreases and depend by the period they are granted, leading to diminish the fluctuations in the monthly earnings to the level of the entire year. Basically the average net salary in 2011 increased from 1424 lei to 1604 lei, means 12.6%.
Besides the earnings there are added the extra pay earnings consist of: food vouchers, training programs, gift vouchers, life, goods or accidents insurance, office car, fuel for transport, transport discounts, foreign languages courses, discounts at certain stores, subscriptions for sports.

Concerning the situation of the extra pay benefits in Romania, we can say that both in 2010 and in 2011, the meal vouchers remained first in the packages of the benefits following the training packages, business machines and gift vouchers.

![Graph: Evolution of the gross nominal average salary earning in 2010-2011](image)

**Conclusion**

Approaching the employee benefits must be made in view of the employee motivation on the one hand and, the need of the managers, on the other hand, to get effective participation of the employees in the achievement of the organizational objectives.

The employee motivation may be financial and non-financial, so that, we made, in this article, an antithesis between the need (to have a salary) and the opportunity consisting of achievements, professional developing etc.

IAS 19 Standard, "Employee Benefits" identifies and classifies these benefits into five categories namely: short-term employee benefits, post-employment benefits, other long-term benefits, benefits for the employment termination contract, compensation in the form of the equity participations.

**Accounting for the short-term employee benefits** is generally simple because there are not required the actuarial assumptions to evaluation the obligation or the cost and there is not the
possibility of such an actuarial gain or loss. Moreover, the obligations for the short-term employee benefits are evaluated on an undiscounted basis.

We consider that at the entity level it is necessary to establish a strategy of the motivation and involvement management that take into account the needs of the employees.

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IAS 19 “Beneficiile angajaților”