EVALUATION OF IAS 19 EMPLOYEE BENEFITS WITH REGARDS ABOUT IASB`S AND ROMANIAN APPLICABILITY

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Abstract:
IAS19 *or* ***International Accounting Standard Nineteen*** *is an accounting rule concerning employee benefits under the IFRS rules set by the International Accounting Standards Board. In this case, "employee benefits" includes wages and salaries as well as pensions, life insurance, and other prerequisites. The rules in IAS19 explains the accounting for longer term employee benefits and post employment plans such as defined benefit retirement plans. Accordingly, most of the standard is taken up with explaining the rules for long term employee benefits*

Key words: *standards,employee benefits*

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Defined benefit pension plans will offer various different types of benefit according to the mode by which the employee leaves the employer. For example, if the employee remains in employment until the employee's retirement age, the employee may be entitled to a pension, often calculated by reference to the employee's average salary in the period running up to their exit. The pension might be payable for the remainder of the employee's life, and when he dies, at a reduced rate to his spouse for the remainder of her life. But if the employee were to leave service before being entitled to a pension, he might receive a benefit such as a return of contributions, or a deferred pension payable from normal retirement age, depending on length of service. In many cases, defined benefit pension plans are funded and hold assets in order to meet those promised benefits. A defined benefit pension plan is an example of a post-employment benefit plan.

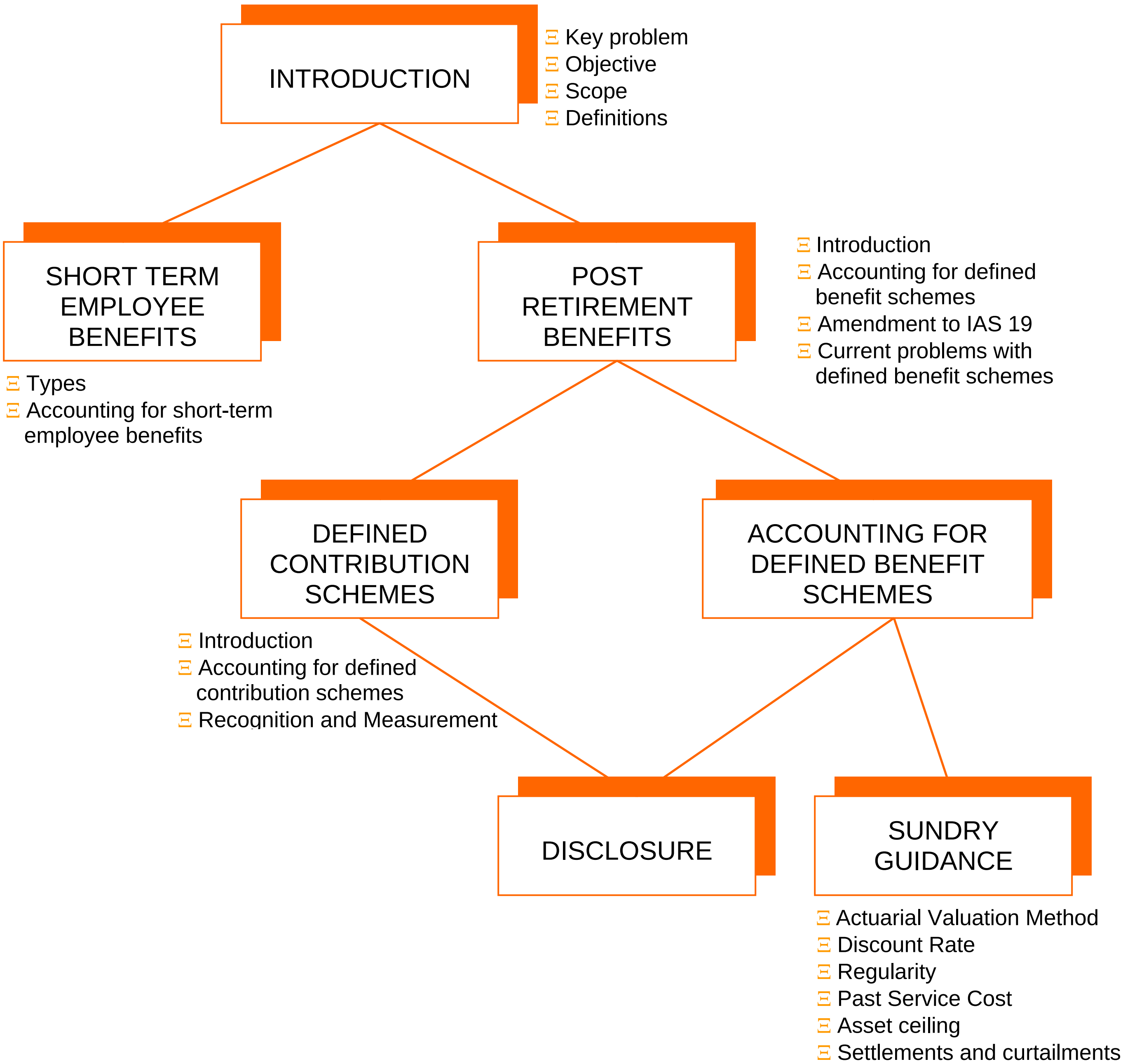
The past of socialist type of Romanian economy, based on equity and equality between persons, did as many years after termination of the communist regime from the year 1989, the employee benefits from afterwards their work had been limited strictly to salary as the short–term benefit.

The effects of globalization concerning Romanian economy carry on to the implementation of the big companies in Romania which carry on to another politics of motivation of the employees like: post employment benefits are employee benefits which are payable after the completion of employment, the equity plans are formal or informal

Arrangements under which an entity provides equity compensation benefits for one or more employees, the vested employee benefits are employee that are not conditional on future employment.

The return on plan assets comprises interest ,dividends, and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself and the actuarial gains and losses comprise the effects of differences between the previous actuarial assumption and what has actually occurred ,as well as the effects of changes in actuarial assumptions, thus series of big companies from Romania started to apply IAS 19 foresight referring to the employee benefits.

The resume of what we will discuss about IAS 19, Employee benefits



This standard prescribes the accounting recognition and measurement principles, as well as the disclosure requirements for short –term and post employment employee benefits.

An entity must recognize:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future ,and
- an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits

According to the standard, we can say that its scope applies to all employees' benefits, including those provided under both formal arrangements and informal practices. Five types of employee benefits are identified, namely: short-tem employee benefits (bonuses, wages, and social security), post-employment benefits (pensions and other retirement benefits), and other long-term benefits (long-service leave and if, not due within 12 months, profit sharing, bonuses, and deferred compensation), Termination benefits and equity compensation benefits (employee share option per IFRS2)

Accounting for short-term employee benefits

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

- as a liability (accrued expense)after deducting any amount already paid
- as an expense (unless another IAS requires or permits the inclusion of the benefits in the cost of an asset)

In short, the entity must account for the expense on an accruals basis

Accounting for defined contribution schemes

Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period.

Accounting for defined benefit schemes

The entity's obligation is to provide the agreed benefits to current employees.

There is a risk that the fund will be insufficient to pay the agreed pension ,if this happens then the entity will have to provide for any shortfall(e.g. Plans where an employee is guaranteed a specified return).

The entity will set cash aside that is then invested to earn a return and this will then grow and hopefully enable the entity to meet its future obligations.

Clearly the estimation of the amount to set aside is very difficult .Usually companies will use the services of an actuary (an expert in post retirement benefits).The actuary will perform a calculation in which he includes estimates of all variables which will effect the growth of assets and liabilities. These include :required post retirement benefit, rate of return on the stock market, interest rate, inflation, rate of leavers, death in service probability.

The actuary will then tell the company how much it needs to set aside in order to meet the obligation. This is usually stated as a percentage of salary and is usually paid to the plan on monthly basis. The actuary will never be accurate in respect of his estimates .This means that the value of the plan assets and liabilities at each year-end will be different to that forecast at the last actuarial valuation. The standard gives rules on how (or whether) to account fur such differences

Amendment to IAS 19

The IASB currently has reservations about IAS19 regarding the deferral of actuarial gains and losses. It believes that deferred recognition is inconsistent with its Framework document. The IASB intends to carry out a major project in the area of accounting for retirement benefits.

In the meantime, the board has issued an amendment to IAS 19 that will allow, in addition to the current recognition criteria, full recognition of all actuarial gains and losses in the period they occur and through the statement of total recognized gains and losses.

An entity whishing to adopt this policy must do so far all defined benefit plans and all actuarial gains and losses.

The **contribution plan** existed in Romania is on a big area, especially on the contribution for the retirees paid for life with according capitalization in the favor of its employees. At lower level, appeared the plan of the determined benefits, so the Romanian entities are not offering to its employees (pasts or actual) determined benefits. Contribution plans are post employment benefit plans which an entity pays fixed contribution s into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefits plans are not so applied in Romania. Because of the volatility of some indicators such as: discount rate assumption, the wage growth rate assumption, and the expected rate on fund assets .The discount rate assumption, appears in one of the cases: if the discount rate is increased, the pension obligations will decrease, producing an actuarial gain for the year. If the discount rate is decreased, however, the pension obligation will increase, resulting in an actuarial loss for the year. The wage rate growth assumption directly affects pension obligations and the service cost component of the reported pension expense.

Therefore, a higher (lower) wage growth rate assumption will result in a higher (lower) pension obligation and a higher (lower) service component of its reported pension expense. Because all funds should earn the same risk and –adjusted return in the long run (if the market is efficient) ,deviations in this assumption from the norm that are unrelated to changes in pension’s portfolio `s asset mix might suggest that the pension expense is overstated.

In general, if the expected return on plan assets is too high the pension expense is understand ,boosting reported earnings; if the expected return on plan assets is too low the pension expense is overstated ,reducing reported earnings. Again, manipulating the expected return on plan assets will manipulate reported earnings and can be used to smooth earnings per share.

	Higher(Lower) Discount Rate	Higher(Lower) Compensation Rate Increase	Higher(Lower) Expected Rate of Return on Plan Assets
PBO	Lower(Higher)	Higher(Lower)	No impact
ABO	Lower(Higher)	No impact	No impact
VBO	Lower(Higher)	No impact	No impact
Pension Expense	Lower(Higher)	Higher(Lower)	Lower(Higher)
Earnings	Higher(Lower)	Lower(Higher)	Higher(Lower

For defined plans, the annual pension expense and employer’s liability are determined by calculating the present value of future benefits to be paid retirees. Forecasting future benefits involves actuarial studies and assumption about future events, including life expectancies of plan participants, labor turnover rates, future wage levels, discount rates, rates of return on plan assets. Benefits promises to participants are defined by a specific formula that reflects these estimated future events. The estimated benefits are allocated to the years of service worked by employees to develop the annual pension expense .Companies with defined benefit pension plans accrue obligations to pay benefits ,according to the benefit formula ,as the employee performs work. However, these obligations are not discharged until after the employee retires.

For **defined contribution plans**, the employer's annual pension expense is the amount that the company plan must contribute to the plan each year according to the contribution formula. Pension expense and cash outflow are the same, and there are no assets or liabilities recorded by the employer. A defined contribution pension plan only obliges the employer to make annual contributions to the pension plan based on a prescribed formula. When the contributions are made, the company has no further obligation that year.

Conforming to IAS 19, some **definitions** are obvious:

- Short-term employee benefits are employee benefits (other than termination benefits)which fall due wholly within twelve months after the end of the period in which the employees render the relates service
- Post-employment benefits are employee benefits(other than termination benefits)which are payable after the completion of employment
- Post –employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees
- Defined contribution plans are post-employment benefit plans under which an entity pays fixed contribution into a separate entity(a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient to pay all employees benefits relating to employee service in the current and prior periods
- Defined benefit plans are post-employment benefit plans other than defined contribution plans
- The present value of a defined benefit obligation is the present value ,without deducting any plan assets ,of expected future payments required to settle the obligation resulting from employee service in the current and prior periods
- Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period
- Interest cost is increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement
- Plan assets are assets held by an entity (a fund) that satisfies all the following conditions:
  - The entity is legally separate from the reporting entity
  - The assets of the fund are to be used only to settle the employee benefit obligations, are not available to the entity's own creditors and cannot be turned to the entity (or can be turned to the entity only if the remaining assets of the fund are sufficient to meet the plans obligations)
  - To the extent that sufficient assets are in the fund ,the entity will have no legal or constructive obligation to pay the related employee benefits directly

To inform the people about the benefits, which the entities accord them to they employees, in the financial situations, must be present the following information's:

1. Balance sheet and notes

- Details about the recognized defined benefit assets and liabilities
- Reconciliation of the movements of the aforementioned

- Amounts included in the fair value of plan assets in respect of :
    a. The entity's own financial instruments ,or
    b. Property occupied or assets used by the entity
- The actual return on plan assets
- Liability raised for equity compensation plans

2. Income statements and notes
- Expense recognized for contribution plans
- Expense recognized for benefit plans and the line items in which they are included
- Expense recognized for equity compensation plans

3.Accounting policies:
- Methods applied for the recognition of the various types of employee benefits
- Description of pot employment benefits plans
- Description of equity compensation plans
- Actuarial valuation methods used
- Principal actuarial assumptions

The conclusion we can take after al the things we discuss is that IAS19 referring to the employee benefits are not applied in Romania as much as in U.K. IAS 19 is applied only at the big companies like Price Waterhouse Coopers, KPMG, Bega Group, Petrom or other big companies which have the same politics in every country even they have different culture.But it is sure that in few years Romania will adopted more strong IAS 19 or other international standards, the problem until now was that Romania adhered just for one year to European Union and the accounting system is not totally changed, but will adjusted because of the harmonization with other countries. Another reason maybe should be that the companies from Romania are not so developed, or do not have enough money to permit to offer some other benefits besides the salary or after the retirement as in United Kingdom.

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