

ACCOUNTING AND FISCAL CONSIDERATIONS UPON PERFORMANCE GUARANTEES - PARTICULAR CASE OF CONSTRUCTION WORKS

Professor Dorel Mateș, PhD
 West University of Timișoara

Lecturer Adriana Marina Pușcaș, PhD
 „Vasile Goldiș” Western University of Arad

Ec. Daniela Pordea
 EVBILANZ SRL Arad
 E-mail: danapordea@gmail.com

(Received: June 2018; Accepted: September 2018)

Abstract: The performance guarantee represents the contractor's liability to ensure the beneficiary on the fulfillment of the quality conditions for the contracted works, as well as of their execution within the agreed contractual term.

In the context of a growth trend in the industrial construction market since 2018, we considered it appropriate to study the impact of the performance guarantees on the financial balance of the contractors operating on this market.

Through this research we aim to analyze the methods of guaranteeing the construction works, to assess the financial, accounting and fiscal issues of a construction company as a general contractor, to identify potential risks and to find solutions to avoid them.

Keywords: guarantee, performance, provisions, construction.

J.E.L. CODES: M41, K34.

1. Introduction

The construction industry is the basis of the world economy and has become the main tool in analyzing the economic conditions of a state in recent economic history. It is one of the most important industries in the world, its contribution to global gross domestic product rising to one-tenth. At the same time it is a main provider of jobs, about 7% of the total number of employees in the world are active in this field. At european level, the construction sector is represented by 97% of small and medium-sized enterprises. In the framework of the European Strategy for Supporting Competitiveness in the Construction Sector, the development of this type of entity (SME) is a priority objective.

Mateș, D., Pușcaș A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

Based on the data provided by the National Commission for Strategy and Prognosis, the volume of construction works foreseen for the next 4 years will have an upward trend, especially in engineering constructions (an increase of 10.3% in 2018 compared to the previous year) and non-residential constructions (9.6% increase in 2018 compared to the previous year).

Under these circumstances we consider it necessary to approach the risks faced by the contractors of such works in terms of the quality requirements imposed on the one hand by the legislation in the field and on the other hand by the clauses in the negotiated contracts.

2. Literature review

Construction activity is an important branch of the national economy, which, especially during periods of economic growth, had a massive contribution to the growth of the gross domestic product. The volume of construction work in gross value increased in 2017 compared to the previous year, according to a study by Anghel M.G., Anghelache C., et. al. and published in the paper "Analysis of the evolution of activity in industry and construction - the first nine months of 2017", Romanian Journal of Statistics, supplement no. 1/2018.

Accounting for construction contracts is a continuing concern for the International Accounting Standards Board (IASB), with numerous debates and revisions over time about how revenue is recognized in such contracts (Elliot, B., Elliot, J., 2011, p. 523).

Currently, according to the International Financial Reporting Standard no. 15 (IFRS 15) "Revenue from Contracts with Customers", the accounting of the construction contracts requires the allocation of contract revenue and contract costs to accounting periods in which construction work is performed, given that these types of contracts generally extend over several years. When the contracts that are fully executed in the same financial year, profit or loss will be recognized in the financial statements of that respective year.

Law 10/1995 regarding the quality in constructions republished in the Official Gazette 765/2016 with subsequent amendments and completions establishes and regulates the quality of the construction works and related facilities, starting with the design stage through to the use and post-use phase. The construction work contract must include stipulations on the quality of the completed works according to the law, as well as on the methods of guaranteeing the fulfillment of these quality requirements. The contractor of the construction works shall be obliged to repair at his own expense any defect of quality that came from his fault, both during the performance of the works and during the warranty period specified in the contract.

Mateş, D., Puşcaş A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

Rumane, A.R., (2018) in the work "Quality management in construction projects" performs an analysis of the notion of "quality" in historical context. According to his studies, quality in the industrial sector has begun to gain important valences after the Second World War, when the business world has focused on meeting consumer needs. As regards construction works, the way in which quality requirements are met differs from other areas of the industry by the very uniqueness of the supplied product, which can cause major difficulties in remedying possible deficiencies, unlike production where it is possible to replace the damaged elements with other products meeting the requirements.

The method of construction works quality ensurance is the subject of the agreement of the contractual parties.

Law 227/2015 regarding the Fiscal Code published in the Official Gazette 88/10.09.2015 with subsequent amendments and completions stipulates in art. 319 par. (6) let. a) an obligation on the contractor to issue an invoice to the beneficiary for any supply of goods or services.

Performance guarantees are not value added tax transactions, and as such they do not constitute supplies of goods or services within the meaning of Article 286 par. (1) of the above mentioned law and are therefore not included in the taxable amount of VAT. Thus, the invoice for each stage of work must contain the entire value of the construction work that results from the work progress report accepted by the beneficiary, the output VAT being applied to the entire invoiced amount. The contractor is not required to invoice the amounts withheld as guarantee, but if these amounts are included in the invoice, they will not diminish the taxable amount of VAT.

In order to comply with the prudence principle, guarantee provisions are set up for the performance guarantee granted to the beneficiary under the contractual requirements. International Accounting Standard no. 37 (IAS 37) "Provisions, Contingent Liabilities and Contingent Assets" defines provisions as liabilities of uncertain timing or amount. For an entity to recognise the provisions, they must meet certain conditions: a present obligation has arisen as a result of a past event, a payment that affects the benefits is probable and the provisions amount can be estimated reliably.

The performance guarantee provisions are tax deductible according to Article 26 paragraph (1) let. b) of Law no. 227/2015 regarding the Fiscal Code. According to the Methodological Norms for the application of Law 227/2015 on the Fiscal Code, approved by Government Decision no. 1/2016 with subsequent amendments and completions, the provisions for performance guarantees are set up on a quarterly basis, provided that the total value of the executed works confirmed by the beneficiary (as it results from the work progress reports) is fully reflected in

Mateș, D., Pușcaș A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

revenue. In some interpretations of this legal measure we find the option of setting up the provisions on the date the performance guarantee is provided, these being quarterly deductible expenses, under the conditions imposed by tax legislation. In our study, we considered it appropriate to quarterly set up these provisions by recording them in the accounting at the end of each quarter.

3. Research methodology

The scientific research involves the following steps:

A) *Establishing the research objective*: assessing the financial, accounting and fiscal issues of a construction company, identifying potential risks and finding solutions to avoid them.

B) *Choice of research methodology*:

The research technique we will use is the case study, we propose a deductive research, starting from general concepts and aiming at their implementation at the level of construction entities.

C) *Collecting information required for research*: identification, classification and study of the specialized literature and the legislation governing the construction activity, as well as the factual documentation by collecting, analyzing and interpreting data from the financial and accounting documents of an entity whose main activity is the construction of industrial buildings and who acts on the western market (Arad and Timiș counties).

D) *Processing of collected data*: identifying the methods of providing the performance guarantees for the construction works and the way of recognizing them in the financial statements.

E) *Analysis and interpretation of research results*: analysis of the impact on the company's financial balance.

F) *Presentation of conclusions and proposals*: identifying the solutions to ensure optimal financial stability for a construction entity.

4. Methods of guaranteeing the construction works

a) The performance guarantee may be constituted by immobilizing an amount of money at the beneficiary's disposal

The performance guarantee represents a way of ensuring the beneficiary on the fulfillment of the quality conditions for the contracted works, as well as of their execution within the agreed contractual term. Its provisioning consists in the immobilization of a sum of money (usually a percentage of the contractual value of the works) at the beneficiary's disposal. Thus, when paying the invoice for each stage of works (based on the work progress report agreed by the beneficiary), a

percentage that represents the value of the performance guarantee (stipulated in the contract) shall be retained.

Two methods can be identified for immobilizing the performance guarantee amount at the beneficiary's disposal:

a.1.) Decreasing the amount calculated in the work progress report with the performance guarantee value

The performance guarantee value may be deducted from the invoice or may be mentioned in the invoice as information only.

The Beneficiary will pay the contractor the value of the invoice diminished by the value of the performance guarantee. The latter will be accounted for in a separate account, both in the contractor's accounting (non-current receivables account) and the beneficiary's accounting (other loans and similar debts account).

a.2.) Immobilization of the performance guarantee amount into a contractor's distinct bank account

This alternative involves the deposit of the performance guarantee into a separate bank account, where it will be blocked at the beneficiary's disposal.

The performance guarantee value may be mentioned in the invoice as information only, but it will not be deducted from the total invoice. Instead, the invoiced amount will be paid by the beneficiary in full, but into separate bank accounts: the performance guarantee amount will be paid into the guarantee bank account at the beneficiary's disposal and the difference will credit the current account of the contractor; the payments will be registered in the accounting of the two companies into two separate accounts.

In practice, this way of guaranteeing work can create difficulties for the beneficiary when he they face the necessity of full or partial execution of the guarantees (if the contractor has not fulfilled his contractual obligation, in whole or in part). The release of blocked amounts from the guarantee bank account requires additional procedures compared to case where the amounts were withheld for payment.

b) The guarantee of construction works can be provided by submission of a letter of bank guarantee issued by the contractor's bank in favor of the beneficiary

The letter of bank guarantee is a document through which a banking institution irrevocably and unconditionally undertakes to pay at the beneficiary's request any amount up to the value of the performance guarantee stipulated in the contract, if the beneficiary declares that the contractor has failed to fulfill his contractual obligations.

Obtaining a letter of bank guarantee implies an economic and financial analysis by the bank and also requires the contractor to provide a collateral for the amount of the letter, according to bank rules and the legislation. However, the use of this

guarantee method brings a significant advantage for the contractor in that it keeps the liquidity at their own disposal. This is in contrast with the methods described at pt a) above, when the capital is immobilized at the beneficiary's disposal.

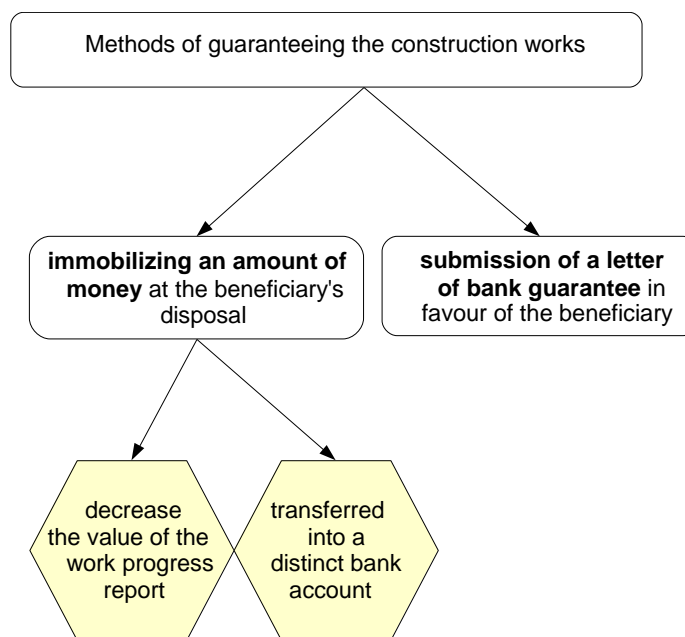


Figure 1 Methods of guaranteeing the construction works

Source: author's projection

5. Case studies

We continue to present the specific accounting operations for the performance guarantees as stipulated in the construction work contract at a supplying company which has the status of general contractor and subcontracts part of the works to a subcontractor.

On the 1st of January 2017 the company HOLDING SRL Arad (contractor) concluded with INCO SRL Timișoara (beneficiary) a general work contract on the construction of an industrial building. The value of the contracted works is 15.017.547,21 lei + VAT 19%. The contract stipulates that the guarantee of works is provided by immobilizing of 5% of the total value at the beneficiary's disposal. The deadline for completion of works is the 31st of December 2017. The warranty period is 5 years from the signing of the work acceptance protocol.

The stages of the works were as follows:

Table 1 - Stages of works

The date of the approval of the work progress report by the beneficiary	The value of the work progress report (lei)	The value of the performance guarantee (5%)
29.01.2017	504.575,10	25.228,76
19.02.2017	1.827.921,66	91.396,08
19.03.2017	3.576.531,39	178.826,57
Quarter 1 - total	5.909.028,15	295.451,41
17.04.2017	3.542.975,10	177.148,76
16.05.2017	2.891.281,87	144.564,09
Quarter 2 - total	6.434.256,97	327.712,85
09.07.2017	1.145.533,42	57.276,67
28.08.2017	682.895,14	34.144,76
20.09.2017	212.225,37	10.611,27
Quarter 3 - total	2.040.653,93	102.032,70
08.10.2017	200.424,84	10.021,24
04.11.2017	433.183,32	21.659,17
Quarter 4 - total	633.608,16	31.680,41
YEAR 2017 - TOTAL	15.017.547,21	750.877,36

Source: author's projection

The work acceptance protocol was signed on the 15th of December 2017.

In order to carry out the construction works stipulated in the general contract concluded with the company INCO SRL Timisoara, on the 1st of April 2017 HOLDING SRL (general contractor) signed with GOLD SRL (subcontractor) a subcontracting work contract for a part of the main work. The value of these subcontracted works is 3.387.295,20 lei + VAT 19%, the performance guarantee is 5% of the value of the works, with a warranty period of 5 years from the signing of the work acceptance protocol. The deadline for completion of works is the 30st of November 2017.

The stages of the subcontracting works were as follows:

Table 2 - Stages of the subcontracting works

The date of the approval of the work progress report by the general contractor (the beneficiary of the subcontracted works)	The value of the work progress report (lei)	The value of the performance guarantee (5%)
28.02.2017	1.332.900,66	66.645,03
31.05.2017	1.709.567,89	85.478,39
27.07.2017	154.121,93	7.706,10
05.09.2017	47.760,86	2.388,04
12.10.2017	142.943,86	7.147,19
TOTAL	3.387.295,20	169.364,76

Source: author's projection

The work acceptance protocol was signed on the 31st of October 2017.

▪ **The specific supporting documents used in the construction activity**

The service (construction works) contract concluded between the contractor and the beneficiary is accompanied by an *estimate-offer* (general estimate) drawn up by the contractor and agreed by the two contracting parties, on the basis of which the contract value of the works to be performed is determined. The latter is a technical-economic document which provides an appraisalment of the quantities and costs of building materials as well as of the workmanship required to perform the contracted construction works. The workmanship value generally includes the profit margin.

In *technical* terms, the general estimate contains all items of expenditure structured in chapters and sub-chapters, on the categories of works that form an investment objective. Thus, there will be estimates for resistance, architecture, sanitary, electrical, thermal, fitting, fencing, sewage works. All of these partial estimates are summed up into a *Summary of Project Costs*. In Table 3 we present an example of such a document.

Table 3 - Summary of Project Costs - General contract

No crt	No. of chapter/sub-chapter General Estimate	Name of expenditures chapters	Value of expenditure per item (VAT excluded) - lei -
0	1	2	3
1	1.1	Landscaping	-
2	1.2	Environmental protection and bringing to the initial state planning	-
3	2	Necessary utilities	-
4	3.1	Field studies	-
5	3.2	Projection	-
6	4	Main investment	-
		6.01 INDUSTRIAL HALL	11.835.828,18
		01.01 Structure of resistance	6.112.256,07
		01.02 Architecture	5.163.647,00
		01.03 Indoor sanitary fittings	97.889,04
		01.04 Indoor electrical installations	331.007,88
		01.05 Indoor thermal installations	131.028,19
		6.02 - PLATFORMS AND FACILITIES	4.664.171,82
		02.01 Concrete and gravel platform	3.178.674,49
		02.02 Fencing and gates	431.328,60
		02.03 Sewerage	673.781,45
		02.04 Electrical installation + lighting	380.387,28
7	5.1	Organization of site	-
		Total value (VAT excluded)	16.500.000,00
		VAT (19%)	3.135.000,00
		Total value (VAT included)	19.635.000,00

Source: author's projection

Mateș, D., Pușcaș A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

In *economic* terms, the estimate-offer is the basis for appraising the entity's costs in order to achieve the objective set by the contract and the profit that will flow from that investment.

As the construction works are carried out, the contractor draws up *work progress reports* (partial worksheets), which require the beneficiary's acceptance before proceeding with the invoicing. These documents have a dual role: (1) in *fiscal* terms, they are imposed by the relevant legislation in order to justify the performance and to determine the value added tax chargeability, and (2) in *economical and financial* terms, the work progress reports constitute the basis for calculating the costs for the services provided by the contractor.

Upon completion of the investment, the reception takes place. By this act, the beneficiary accepts and takes over the works that have been executed and the *Protocol of the reception at the end of the works* is drawn up. A member of the local authority must also be a member of the reception committee.

Upon expiration of the warranty period of the works stipulated in the concluded contract there is a second stage of reception, which is recorded in a *Final Work Acceptance Protocol*. Based on the conclusions presented in this document and on any objections raised by the beneficiary, the performance guarantees will be released in full or in part.

- **The construction works invoices**

The value of each work progress report accepted by the beneficiary (Table 1) is fully recognized in revenues and VAT is collected on the entire amount of the invoiced work progress report. The performance guarantee is not included in the taxable amount of VAT, therefore the output VAT will not diminish.

Similarly, the value of the work progress reports prepared by the subcontractor and accepted by the entity will be recognized at expenses. The guarantee is not subject to VAT, therefore VAT is fully deductible.

- **The recognition of the performance guarantees and their release (derecognition) upon expiration of the warranty period**

Case 1: The performance guarantees were set up by decreasing the amount calculated in the work progress report with the performance guarantee value

The performance guarantee can be deducted from the total invoice value or it may be mentioned on the invoice as information only.

The trade receivable value will diminish at each invoice date with the amount of the guarantees, by immobilizing them in the account of non-current receivables, on the contractual warranty period.

Mateş, D., Puşcaş A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

At the conclusion of the work contract, the non-current receivables value representing the performance guarantees will amount to 750.877,36 lei (Tabel 1). Upon expiration of the warranty period specified in the general contracts agreement, the performance guarantees will be released to the beneficiary without collecting VAT (as we have previously shown the performance guarantees are not subject to VAT). The contractor is not required to issue an invoice for the performance guarantees, the amounts can be directly collected, based on the signed work acceptance protocol and the contract for work. The volume of non-current receivables decreases with the amounts transferred by the beneficiary to the entity's bank account.

Similarly, *on receipt of each subcontractor's invoice*, the value of the retained guarantees will diminish the short-term debt and the guarantees will be recognized as "Other loans and similar debts" during the warranty period. Upon completion of the subcontract, the entity will report the entire amount of the retained guarantees during the course of the contract as "Other loans and similar debts", as shown in Table 2 (169.364,76 lei).

The entity will release (will pay) the guarantees to its subcontractor either directly, based on the signed work acceptance protocol and the contract for work, or on the basis of a received invoice (which will not include VAT).

Case 2: *The performance guarantees were set up by immobilization of the amounts into a contractor's distinct bank account, on the warranty period*

Under this circumstance, the performance guarantees retained by the beneficiary under the general contract will be recognized as non-current receivables at the time of their collection into the (separate) guarantees bank account. Essentially, each invoice issued by the beneficiary will be collected in full, meaning that the guarantee won't be deducted from the total invoice.

Upon expiration of the warranty period, under the beneficiary's agreement and the final work acceptance protocol, the general contractor's bank will unblock the corresponding amounts and will operate their transfer to the entity's current bank account, at which point the guarantees will be derecognized by crediting the non-current receivables account.

The guarantees retained from the subcontractor will be recognized in the off-balance account (8021 "Guarantees and endorsements") with the payment of each invoice: the value of the performance guarantee will be transferred to the subcontractor's separate guarantee account and it will diminish the debt to the supplier, as the value of the invoices received from the subcontractor for the accepted works wasn't diminished by the value of the guarantees in this situation.

Mateș, D., Pușcaș A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

Upon expiration of the warranty period of the subcontracted works, the general contractor will address his subcontractor's bank the agreement to unblock the performance guarantees and will adjust his off-balance accounting evidence by removing (derecognition) of the previously retained guarantees.

▪ **Provisions for guarantees to customers**

At the end of the first quarter (on the 31st of March 2017), the general contractor HOLDING SRL will set up a provision for the performance guarantees granted to his beneficiary. The amount of the provision to be constituted is the sum of the performance guarantees at the end of the quarter, which is shown in Table 1 (295.451,41 lei).

At the end of 2017, the account 1512 "Provisions for guarantees to customers" will present a credit balance of 750.877,36 lei, while the account 2678 "Other long term receivables" will have a debit balance of 750.877,36 lei. The account 167 "Other loans and similar debts" will present a credit balance of 169.364,76 lei.

Upon expiration of the warranty period of the works, with the full collection of the performance guarantees, the provision for guarantees will be resumed to revenue for its balance.

▪ **The performance guarantee execution**

If work defects arise inside the warranty period due to the fault of the contractor, we identify several situations:

i.1.) In the case of deficiencies due to the fault of the general contractor who performs the remedies himself, the expenses for the repair works will be recorded in the general contractor's accounting and will affect the result of the period, being tax deductible. The previously established provision will be resumed to revenue for the corresponding amount.

i.2.) In the case of deficiencies due to the fault of the general contractor, if he cannot perform the necessary remedies, the beneficiary will either remedy the defects himself or by other specialized companies and will retain the performance guarantee from HOLDING SRL. On the basis of the supporting documents received from the beneficiary, HOLDING SRL will reduce the value of the long term receivables corresponding to the value of the repairs that have been made, debiting the account 6581 "Compensation, fines and penalties"; the previously established provision will be resumed to revenue for the corresponding amount.

i.3.) If the deficiencies are due to the subcontractor's fault, which carries out the repair works himself, no recordings will be made in the accounting of HOLDING SRL.

Mateş, D., Puşcaş A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

i.4.) If the subcontractor cannot perform the necessary repairs for defects that have occurred due to his fault, HOLDING SRL will either remedy the defects themselves or by other specialized companies; at the same time, they will retain the part of the performance guarantee from the subcontractor, as follows:

Case 1: The performance guarantee was set up by decreasing the amount calculated in the work progress report with the performance guarantee value

On the basis of the supporting documents, the general contractor will reduce the balance of the loans and debts account accordingly (by debiting it), together with the credit of the account 7581 "Compensations, fines and penalties". The repair costs are tax deductible, as is the value added tax.

Case 2: The performance guarantee was set up by immobilization of the amounts into a contractor's distinct bank account, on the warranty period

On the basis of the supporting documents, HOLDING SRL will execute the performance guarantee immobilized in the subcontractor's guarantee bank account for the amount of the performed repairs. When collecting the due amounts, the account 5121 "Cash at bank in lei" will be debited in correspondence with the credit of account 7581 "Compensation, fines and penalties"; the off balance sheets will be adjusted accordingly, by crediting the account 8021 "Guarantees and endorsements" with the executed part of the guarantees.

▪ **Discussions on the potential impact on the financial balance of the general contractor and identified solutions**

Hypothesis: Upon completion of the subcontracting works, the subcontractor submits to the general contractor a letter of bank guarantee for the full value of the retained guarantees (169,364.76 lei) and requests their release in exchange for this document.

The entity will have to reduce its liquidity by the amount of the guarantees paid to the subcontractor if it does not collect the guarantees from the final beneficiary.

Solution: We have identified the possibility of concluding tripartite transactions between the beneficiary, the general contractor and the subcontractor. The letter of bank guarantee submitted by the subcontractor will be issued directly to the beneficiary. This avoids the unilateral payment of the guarantee by the general contractor and the subcontractor directly guarantees the quality of their works to the final beneficiary.

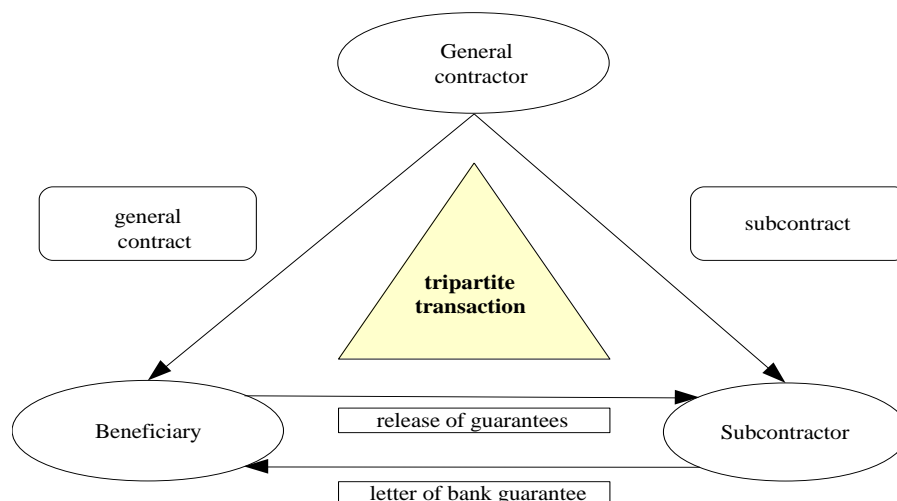


Figure 2 Tripartite transaction operations

Source: author's projection

6. Conclusions

The construction field is a national economy sector characterized by the execution of new construction works (creation of new fixed assets) or repairs and modifications to the existing ones. The progress of science and technology through the development of complex and performing machinery has led to the development of this sector over time, allowing the transition from manual to mechanized work and the possibility of realizing large-scale projects, both architecturally and functionally.

Based on the studies above, we can state that the methods of guaranteeing the fulfillment of the quality requirements and the compliance of the execution deadlines stipulated in the construction contracts present particular features, depending on the negotiated clauses. For this reason, our research has its limits, as its results can not be generalized to the entire construction sector.

Thus, in the case of large-scale investments, the contract is generally signed for an estimated value that may undergo changes along the course of the investment (additional or unforeseen work, project changes, etc.). Presenting a letter of bank guarantee at the signing of a contract may be inappropriate because it involves a change in the value of the guarantee over time, with difficulties in terms of procedures to be followed (new bank financial analyses, changes in bank guarantees, etc.). Therefore the letter of bank guarantee can only be submitted after the investment has been completed, for the purpose of releasing the guarantees that

Mateş, D., Puşcaş A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

have already been forfeited from the invoices (the return of the liquidity to the contractor). The contract for works must provide for the possibility of replacing the performance guarantees with such a document issued by a bank agreed by the beneficiary.

In addition to the presented cases, another situation can be encountered in practice: the subcontractor presents to the general contractor a letter of bank guarantee for the value of the retained amounts and requests their release upon completion of the works (before the expiry of the warranty period). The impact on the financial balance of the general contractor may be significant because they have to reduce their liquidity by the amount of guarantees paid to the subcontractor if they do not collect their own guarantees from the final beneficiary. To avoid such a risk, we identified the possibility of tripartite transactions between the beneficiary, the general contractor and the subcontractor. The letter of bank guarantee submitted by the subcontractor will be issued directly to the beneficiary. This avoids the unilateral payment of the guarantee by the general contractor and the subcontractor directly guarantees the quality of their work to the final beneficiary.

In conclusion, we appreciate that using a letter of bank guarantee is a valid option if the contractor can provide the bank with appropriate collateral, thus managing to keep the liquidity at his disposal and to ensure an optimal financial balance.

7. References

1. Anghel M.G., Anghelache C. (2018), et. al., Analysis of the evolution of activity in industry and construction - the first nine months of 2017, Romanian Journal of Statistics, supplement no. 1
2. David, D., Mateş D., et al (2017), Contabilitate financiară conformă cu Ordinul 1.802/2014 pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate - ediție completată și actualizată, Risoprint, Cluj Napoca, p. 182.
3. Elliot, B., Elliot, J. (2011), Financial Accounting and Reporting, Pearson Education Limited, Essex, England, p. 523
4. Mateş D., Bunget, O. et al (2013), Bazele conceptuale și aplicative ale contabilității, Casa Cărții de Știință, Cluj Napoca, p. 42.
5. Rumane, A.R. (2018), Quality management in construction projects, Taylor & Francis Group, LLC, U.S.A., p.31, 34.
6. CECCAR (2015), Standardele internaționale de raportare financiară (Partea A + Partea B), CECCAR, București
7. CECCAR (2015), Ghid practic de aplicare a reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate aprobate prin OMFP nr. 1802/2014, CECCAR, București, p. 406, 407, 408, 1191.

Mateș, D., Pușcaș A.M., Pordea D. (2018)

Accounting and fiscal considerations upon performance guarantees - particular case of construction works

8. Government Decision no. 1/2016 for the approval of the Methodological Norms for the application of Law no. 227/2015 regarding the Fiscal Code, published in Official Monitor no. 22 from 13rd of January 2016, with further updates
9. Government Decision no. 273/1994 for the approval of the Regulation for reception of construction works and installations published in Official Monitor no. 193 from 28th of July 1994, with further updates
10. Government Decision no. 907/2016 on the elaboration phases and the framework content of the technical and economic documentation related to the public-financed investment objectives / projects, published in Official Monitor no. 1061 from 29th of December 2016, with further updates
11. Law no. 10/1995 regarding the quality in constructions republished in Official Monitor no. 765 from 30th of September 2016, with further updates
12. Law 227/2015 regarding the Fiscal Code published in Official Monitor no. 88 from 10th of September 2015 with further updates
13. Order of the Minister of Public Finance no. 1.802/2014 for the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements, published in Official Monitor no. 963 from 30th of December 2014 with further updates.
14. http://www.cnp.ro/user/repository/prognoze/prognoza_2018_2021_varianta_de_primavara_2018.pdf
15. World Construction Industry (2010), available at <http://www.economywatch.com/world-industries/construction/world.html>