TOPIC 14

INDAS 19

EMPLOYEE BENEFITS

Note:

Dear Students, this topic covers AS 15 concepts and questions as the lecture was taken 20 days before the exclusions made by ICAI. My suggestion is, u can watch all the lectures of this topic with practice of AS 15 questions also as it will increase ur knowledge enhancement for practical experience. But if don't have enough time for exams then u can also skip the content of AS 15 along with the lectures of AS 15.

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Quote:-

Make each day your masterpiece. – John Wooden

Objective:

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. It requires an enterprise to recognise:

(a) **a liability** when an employee has provided service; and

(b) **An expense** when the enterprise consumes the economic benefit arising from service provided by an employee.

Applicability:

This Standard should be applied by an employer in accounting for all employee benefits, **except employee share-based payments** covered under IndAS 102.

Employee benefits include:

(a) formal plans or other formal agreements between an enterprise and employees;

(b) under legislative requirements, or through industry arrangements; or

(c) By those informal practices that give rise to an obligation.

Types of Employee benefits:

(a) **Short-term employee benefits**, which are expected to be settled wholly **before Twelve Months after the end of reporting period**, such as wages, salaries and social security contributions (e.g., contribution to an insurance company by an employer to pay for medical care of its employees), paid annual leave, profit-sharing and bonuses (if payable within twelve months nonmonetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) **Post-employment benefits,** which are payable after the completion of employment such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) **Other Long-Term Employee Benefits**, including long-service leave or sabbatical leave, long-term disability benefits and, profit-sharing bonuses and deferred compensation; and

(d) **Termination benefits** are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

  (a) an entity's decision to terminate an employee's employment before the normal retirement date; or

  (b) An employee's decision to accept an offer of benefits in exchange for the termination of employment. (VRS)

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Employee benefits include benefits provided to either employees or their dependents or beneficiaries:

Note: An employee may provide services on a full-time, part-time, permanent, casual or temporary basis. Employees include whole-time directors and other management personnel.

Post-Employment Benefits

&

Other Long Term Employee Benefits

DIFFERENCE BETWEEN DEFINED BENEFIT PLANS AND DEFINED CONTRIBUTION PLANS

Defined Contribution Plans (DCP)	Basis of Difference	Defined Benefit Plans (DBP)
Obligation is limited to the amount that it agrees to contribute.	**Obligation (Amount Payable)**	Obligation is to provide agreed benefits to current and former employees. (Obligation is not limited)
No Change in the contribution made except some extreme conditions	**Change in the obligation**	If actuarial or investment experience are worse than expected, **the entity's obligation may be increased** for providing to the employees.
Risk in substance on the Employee	**Actuarial Risk (Benefits will be more/less than expected)**	Risk in substance on the entity.
Risk in substance on the Employee.	**Investment Risk**	Risk in substance on the entity.
Provident Fund Contribution by employer	**Examples**	Gratuity
Not Required	**Actuarial Assumptions**	Required
Not Required except where the obligation falls due after twelve months after the end of the annual reporting period in which the employees render the related service.	**Discounting**	Always Required

ACCOUNTING FOR DEFINED BENEFIT PLANS

Summary:

1. Calculate Current Service Cost (CSC) using actuarial assumptions under "**Projected unit credit method**". CSC means the amount of expense to be recognised every year against the services performed by the employees. CSC is always calculated by discounting technique, since the service has been performed but the amount to be paid in future. It is shown under Employee Benefit Expense in Profit and Loss A/c.
2. Calculate Interest on defined benefit liability using same discounting rate used in CSC. It is show under Finance Cost in Profit and Loss A/c
3. CSC and Interest on defined benefit Liability is charged to Profit & Loss A/c and corresponding liability is credited in the name of PV of defined benefit Liability or defined benefit obligation payable.
4. Determine the Fair Value of Plan Assets (Investments made)
5. We have to present Net defined benefit liability (asset) by deducting Fair Value of Plan Assets from PV of defined benefit liability.
6. If it is deficit then – Net defined benefit liability, if it is surplus then net defined benefit asset.
7. **Asset is to be show at lower of :**

   The surplus in the defined benefit plan; and

   The asset ceiling, determined using the discount rate.

8. Re-measure the liability if there is change in estimates and actuarial assumptions, any change is known as Actuarial Gain or Loss and transfer to OCI
9. Calculate Expected return on plan assets (twice in a year) by using six monthly (assumed) expected rate of return on plan assets. Six monthly rate is calculated as follows:

   $\sqrt{1 + annaul\, rate}$ - 1 x 100

10. Expected return is charged to Profit and Loss A/c under Finance Cost (net of interest on defined benefit liability)
11. At every BS date, re-measure the Plan assets at Fair Value. Any change on re-measurement is called Actuarial loss or gain and transfer to OCI.
12. **Items to be shown in Profit and Loss A/c:**
    - current service cost under Employee benefit expenses
    - any past service cost and gain or loss on settlement (curtailment) under employee benefit expenses
    - net interest on the net defined benefit liability (asset) under finance cost.

13. **Items to be shown in OCI:**

- Actuarial Gain or loss on defined benefit liability due to change in actuarial assumptions or estimates.
- Actuarial gain or loss on Fair value of Plan assets on subsequent measurement.

14. **Items to be shown in Balance sheet:**

Net defined liability (deficit) or Net defined asset (Surplus)

15. **Current/Non-current Distinction**

This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

16. **Actuarial Assumptions** comprise -

i. demographic assumptions such as mortality, employee turnover rate, disability, early retirement, claims rates under medical plans and;

ii. Financial assumptions such as discount rate, future salary, expected rate of return on plan assets.

17. **Offset:**

An asset relating to one plan will be offset against a liability relating to another plan in case the entity:

(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

(b) There is an intention either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Q137

A lump sum gratuity, equal to 1% of final salary for each year of service, is payable on termination of service. The salary in year I is Rs. 10,000 and is assumed to increase at 7% (compound) each year resulting in Rs. 13,100 at the end of year 5. The discount rate used is 10% per annum. Shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions.

Ans.: (Amount in Rs.)

Year	1	2	3	4	5
Benefit attributed to:					
- Prior year	0	131	262	393	524
- Current year (1% of final salary)	131	131	131	131	131
- Current and prior years	131	262	393	524	655
Opening Obligation	-	89	196	324	476

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Interest at 10%	-	9	20	33	48
Current Service Cost (see note 2)	89	98	108	119	131
Closing Obligation (see note 1)	89	196	324	476	655

Note 1

Closing obligation

	Yr.1	Yr.2	Yr 3	Yr.4	Yr. 5
Gratuity attributable	131	262	393	524	655
Payable after (years)	4	3	2	1	0
Discounting factor	.683	.751	.826	.909	1
PV	89	196	324	476	655

Note 2

Current Service Cost

	Yr.1	Yr.2	Yr.3	Yr.4	Yr. 5
Gratuity of current year	131	131	131	131	131
Payable after (years)	4	3	2	1	0
Discounting factor	.683	.751	.826	.909	1
PV	89	98	108	119	131

Q138.

X Ltd. has the following plans for its employees.

A lump sum benefit equal to 1% of final salary for each year of service, is payable on termination of service. The salary in year 1 is Rs. 12,000 and is assumed to increase at 10% (compound) each year. The discount rate used is 10%. Explain how the obligation builds up for an employee who is expected to leave at the end of year 5 under "Projected Unit Credit Method".

(Answer: 878/- Employee Benefit Exp)

Q139.

The fair value of plan assets at the beginning and end of the year were Rs. 2,800 and Rs.3,086 respectively. The employer's contribution to the plan asset during the year was Rs.290. Benefit payments to retirees were Rs. 320. Calculate the amount of return on plan assets.

(Answer: 316/-)

Q140.

On 1.1.2008, the fair value of plan assets is Rs.10,000. On 30.6.2008 it paid benefits of Rs. 1,500 and received contributions of Rs. 4,500. On 31.12.2008 fair value of plan assets is Rs.15,000 and PV of obligation was Rs. 14,972. Actuarial losses on obligation were Rs. 60 on 31.12.2008. Find the net actuarial gain/losses on 31.12.2008 based on the following estimates:

Interest and dividend income	9.25%
Realised and unrealized gain on plan assets	2.00%
Administration costs	1.00%

(Answer: Act. Gain on PA – 825/-; Net Act Gain – 825 – 60 = 765)

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Q141

The following data apply to X Ltd. defined benefit pension plan for the year ended 31.03.2009, calculate the actual return on Plan assets:

Benefits Paid	2,00,000
Employer contribution	2,80,000
Fair market value of plan assets on 31.03.2009	11,40,000
Fair market value of plan asset as on 31.03.2008	8,00,000

(Answer: Actual Return – 260000)

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Q142

As on 1st April, 2008 the fair value of plan assets was Rs. 1,00,000 in respect of a pension plan of Zealous Ltd. On 30th September, 2008 the plan paid out benefits of Rs.19,000 and received inward contributions of Rs. 49,000. On 31st March, March 2009 the fair value of plan assets was Rs.1,50,000 and present value of the Defined benefit obligation was Rs 1,47,920. Actuarial losses on the obligations for the year 2008-09 were Rs.600.

On 1st April, 2008 the company made the following estimates, based on its market studies, understanding and prevailing prices.

Interest & dividend income, after tax payable by the fund	9.25
Realised & unrealized gains on plan assets (after tax)	2.00
Fund administrative costs	1.00
Expected Rate of Return	10.25

You are required to find the expected and actual returns on Plan assets.

(Answer: ER1 = 5000; ER2 = 6750; Act. Gain = 8250)

Q143

The fair value of plan assets of Anupam Ltd. was Rs. 2,00,000 in respect of employee benefit pension plan as on 1st April, 2009. On 30th September, 2009 the plan paid out benefit of Rs. 25,000 and received inward contributions of Rs 55,000. On 31st March, 2010 the fair value of plan assets was Rs.3,00,000. On 1st April, 2009 the company made the following estimates, base on its market studies and prevailing prices.

Interest and dividend income (after tax) payable by fund	10.25
Realised gains on plan assets (after tax)	3.00
Fund administrative costs	(3.00)
Expected rate of return	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 2010, as per AS-15. (May 2011, 5 marks)

(Answer: ER1 = 10000; ER2 = 12000; Act. Gain = 48000)

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Q144.

As on 1st April, 2014, the fair value of planned assets was Rs. 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 2014, the plan paid out benefits of Rs. 19,000 and received contribution of Rs. 49,000. On 31st March, 2015, the fair value of plan assets was Rs. 1,50,000 and present value of the defined benefit obligation was Rs. 1,47,920. Actuarial losses on obligation for the year 2014-15 were Rs. 600.

On 1st April, 2014 the company made the following estimates, based on its market studies, understanding and prevailing prices:

Particulars	%
Interest and Dividend Income after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administration costs	
Expected rate of return	-1.00
	10.25

You are required to find expected and actual return on plan assets.

(Answer: Expected Return on planned Assets – 11750; Actual Return – 20000)

Q145.

A plan pays a lump-sum retirement benefit of Rs 4,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service. Compute the benefit attributed?

Solution

For employees who join before the age of 35, the entity attributes benefit of Rs 200 (Rs 4,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead tono material amount of further benefits. For these employees, the entity attributes benefit of Rs 200 (Rs 4,000 divided by 20) to each of the first twenty years.
For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of Rs400 (Rs4,000 divided by 10) to each of the first ten years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Thus, salary increase will not lead to any additional benefits and hence the benefits are directly attributable to each period will be a constant proportion of the salary to which this benefit is linked.

Q146

Anat Pvt. Ltd. has a plan for the employees where employees are entitled to a benefit of 5 % of final salary for each year of service before the age of 55. Compute the benefit attributed up to 55 years and after 55?

Solution

Benefit of 5% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

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Q147

Omega Limited belongs to the engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of Rs.6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs/2 lakhs instead of Rs.5 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company and the following items from the viewpoint of finalisation of accounts, taking note of the mandatory accounting standards.

Ans.: According to INDAS 19 'Employee Benefits', actuarial gains and losses should be recognized through Other Comprehensive Income. Therefore, entire surplus amount of Rs. 6 lakhs is required to be transfer to OCI.

Past Service Cost/ Modication

Meaning of PSC - Change in the present value of the defined benefit obligation resulting from a plan amendment is known as past service cost.

An entity shall recognise past service cost **as an expense** at the earlier of the following dates:

(a) when the plan amendment occurs; and

(b) when the entity recognises related restructuring costs (refer Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets) or termination benefits.

Plan amendment happens when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

AS 15 (AS 15 is not applicable for May20 onwards)

An enterprise should recognise past service cost as an expense on a systematic basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost immediately.

For benefits not yet vested, the PSC is amortised on straight line basis over the remaining period of vesting.

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Entire PSC should be charged to **P&L immediately**, No need to defer.

Q148

An enterprise operates a pension plan that provides a pension of 2% on final salary for each year of service. The benefit will be vested after 5 years of service. On 1.1.2005, the enterprise improves the pension to 2.5% of the final salary for each year of service starting from 1.1.2001. At the date of improvement the Present Value of additional benefits for service from 1.1.2001 are as follows:

Employees with more than 5 years of service at 1.1.2005	Rs. 2,00,000
Employees with less than 5 years of service	Rs. 1,20,000

(Average period until vesting = 3 years)

Suggest the accounting treatment.

(Answer: PSC – 248000/- AND USC – 72000/-)

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CURTAILMENTS AND SETTLEMENTS

If Defined Benefit Obligation plan is modified in such a way that employees are not getting benefit, rather benefit originally planned is being reduced, it is called curtailment.

An enterprise should recognize gains or losses on the curtailment when the curtailment occurs.

Journal Entry:

Defined benefit Liability A/c Dr. (Curtailment Amt.)
To USC A/c (Unamortised Service Cost Amt. if any)
To Gain on Curtailment A/c (Balancing Fig)

Gain on curtailment shall be transfer to Statement of P&L.

Q149

An enterprise discontinues a business segment and the employees of this segment will earn no further benefits. This is curtailment without a settlement. Immediately before the curtailment the details were.

	Before Curtailment	After Curtailment
PV of obligation (DBO)	1,000	900
FV of plan assets	820	820
Unrecognized past service cost	50	45

The curtailment reduces the obligation to Rs. 900 and URPSC to Rs.45. Suggest the accounting treatment.

(Answer: Gain on curtailment – 95 (p&l))

Q150

Rock star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. In this, if the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Assuming the following:

(a) Immediately before the curtailment, based on current actuarial assumption, the gross obligation was estimated at Rs. 6,000.

(b) The fair value of plan assets on the date was estimated at Rs. 5,100.

(c) The unamortized past service cost was Rs. 180.

(d) Curtailment reduces the obligation by Rs.600, which is 10% of the gross obligation.

Rock star Ltd. estimates the shares of unamortized service cost that relates to the part of the obligation that is estimated at 10% of Rs.180 at Rs.18. Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet. [RTP May 2012]

Ans.: Gain from curtailment is estimated as under

	Rs.
Reduction in gross obligation	600
Less: Proportion on unamortised past service cost	18
Gain from curtailment	582

The liability to be recognised after curtailment in the balance sheet is estimated as under:

Reduced gross obligation	5,400
Less: Fair value of plan assets	5,100
Less: Unamorlised past service cost	300
Liability to be recognised in the balance sheet	162
	138

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Q151

P Ltd. has three business segments which are FMCG, Batteries and Sports Equipment. The Battery segment has been consistently underperforming and P Ltd. after several discussions with Labour unions have finally decided on closure of this segment. Under the agreement the employees of the Battery segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished:

(i) The value of gross obligations before the curtailment calculated on actuarial basis was Rs. 4000 lakhs.

(ii) The value of unamortized past service costs is Rs. 100 lakhs.

(iii) The curtailment will bring down the gross obligations by Rs. 500 lakhs and P Ltd. anticipates a proportional decline in the value of unamortized past service costs also.

(iv) The fair value of the Plan Assets on date is estimated at Rs. 3250 lakhs.

You are required to calculated the gain from curtailment and also show the liability to be recognized in the Balance Sheet of P Ltd. after the Curtailment.

(Answer: Gain from Curtailment – 487.50 and Liability to be recognized in BS – 162.50)

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Q152

Balance of Present Value of Defined Benefit Obligations	15,00,000
Balance of Plan Assets	10,00,000
Actuary Report Specifies:	
Current Service Costs	3,00,000
Interest Cost	20,000
Contributions to Plan Assets	1,50,000
Benefit Paid	2,40,000
Expected Return	12% p.a.
Closing Value of Present Value of Defined Benefit Obligations	17,00,000
Closing Value of Plan Assets at Fair Value	10,20,000

Journalise, Prepare ledgers and Extracts of Balance sheet and Profit and Loss account along with disclosures.

(Answer: Actuary Loss – 4752 and 120000 on Plan Assets and PVDBO)

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Q153

A company furnishes the following details for its defined benefit plan on 1.4.2004

PV of obligation	1,00,000
FV of plan assets	1,00,000

	2004-05	2005-06	2006-07
Discount rate	10	9	8
Exp. Rate of return on Plan Assets	12	11.1	10.3
Current service cost	13,000	14,000	15,000
Benefits paid	15,000	18,000	19,000
Contributions paid	9,000	10,000	11,000
PV of Obligation on 31.03.	1,14,100	1,19,700	1,29,500
FV of Plan Assets on 31.03.	1,09,200	1,10,900	1,09,300

Expected average remaining working life of the employees is 10 years. In 2005-06 the plan was amended and the PV of additional benefit vested was Rs.5,000 and unvested was Rs.3,000. The remaining period till vesting was 3 years.

(Answer: Act. Gain/Loss on PVDBO – 6100 (L), 8669 (G) & 4224 (L))

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Short-term Employee Benefits (No Acturial Assumption)

(i) Accounting for short-term employee benefits is generally straightforward short-term employee benefit obligations **are measured on an undiscounted basis.**

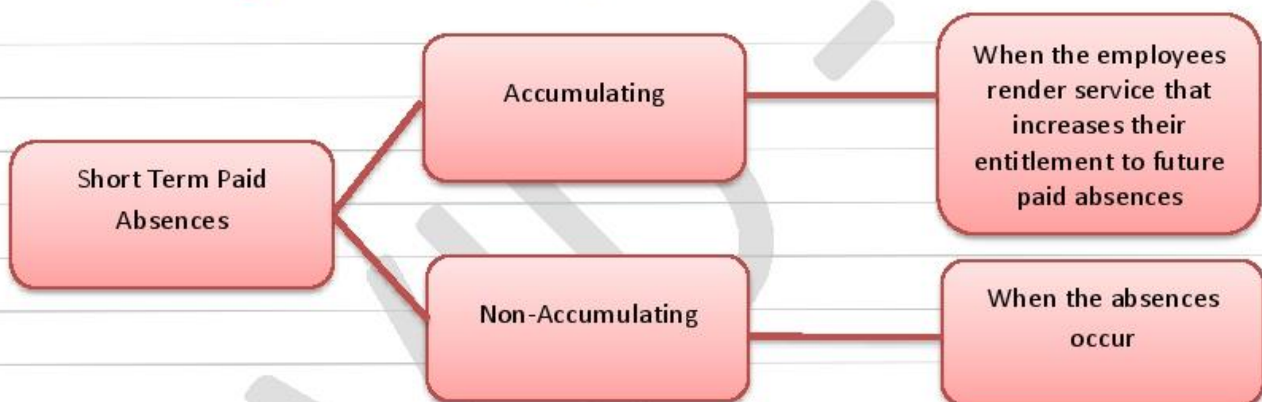
(ii) It involves no actuarial assumptions to be made, hence there is no accounting required for any actuarial gain/loss.

Short-term Compensated Absences

An employer normally compensates an employee on account of his absence either by granting privilege leave (vacation leave), or sick leave, or maternity or paternity leave etc. These compensated balances fall under two categories and recognize the expected cost in the form of paid absences as follows:

(a) **Accumulating** paid absences - recognized when the employees render service that increases their entitlement to future paid absences; and

(b) **Non-accumulating** paid absences - recognized when the absences occur.



Accumulating Paid Absences:

These are the absences that are **carried forward and can be used in future periods** if the employee is not able to use them in current reporting period of the employer. They can be either:

(i) **Vesting:** In this case, employees are entitled **to a cash-payment** for the unutilised entitlement at the time of leaving the entity.

(ii) **Non-vesting:** In this case, employees **are not entitled to a cash payment** for unused entitlement on leaving.

Measurement: An entity shall measure the expected cost of accumulating compensated absences as the **additional amount that the entity expects to pay as a result of the unused entitlement** that has accumulated at the end of the reporting period.

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Q154

Sunderam Pvt. Ltd. has a headcount of 100 employees in 20X0-20X1. As per the employee policy, the employees are entitled for 30 annual leaves out of which 10 may be carried forward to the next current year, 10 sick leaves out of which 2 may be carried forward as paid leave. At March 31, 20X1, the average unused entitlement is 5 days per employee for privilege leave and 1 for sick leave. On an average, it is found that the number of such employees who would be claiming annual leaves would be 30 and 10 employees who would claim sick leaves. Compute the liability to be recognised as sick pay and privilege leave by the entity in 20X0-20X1.

Solution

The entity will recognise liability in the books equal to 150 (30 x 5) days of annual leave and 10 (10 x 1) days of sick leave.

Non-accumulating Paid Absences:

- These are the absences **that do not carry forward** and they will lapse if the current period's entitlement is not used in full by the employee and
- This also **does not entitle employees to a cash payment** for unused entitlement on leaving the entity.

Example: Sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and compensated absences for jury service or military service.

No Recognition: An entity shall recognise no liability or expense as the employee service does not increase the amount of the benefit.

Q155

An enterprise has 100 employees, who are each entitled to five working days of leave for each year. Unused leave may be carried forward for one calendar year. The leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X4, the average unused entitlement is two days per employee. The enterprise expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of leave in 20X5 and that the remaining eight employees will take an average of six and a half days each.

How much is the expected liability due to leaves?

Ans.: The enterprise expects that it will pay an additional 12 days of pay as a result of the unused entitlement that has accumulated at 31 December 20X4 (one and a half days each, for eight employees). Therefore, the enterprise recognises a liability, as at 31 December 20X4, equal to 12 days of pay.

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Profit-sharing and Bonus Plans

An enterprise should recognise cost of profit-sharing and bonus payments when:

(a) the enterprise has a **present legal or constructive obligation** to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made. A present obligation exists when, and only when, the enterprise has no realistic alternative but to make the payments.

(c) Therefore, **an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense**.

Q156

Laxmi Mills is a profit making entity and has reported Rs200 crore in the financial year 20X1-20X2. According to its profit-sharing plan, it distributes and pays 5% as its portion of profit to its employees if they complete 1 year with the organisation. As under these kinds of plans, an entity is under an obligation to pay if the employees complete a specified period with the organisation. Laxmi mills has estimated that due to turnover in the organisation, the estimated pay-out would be around 4.5%. Compute the liability and expense of the company under this plan.

Solution

The company shall make a provision for liability and recognise the same amount as an expense of the amount of Rs9 crores in 20X1-20X2 (4.5% of Rs200 crores).

If profit-sharing and bonus payments are **not settled wholly before the twelve months after the end of the reporting period** in which the employees render the related service, those payments are **considered as other long –term employee benefits**.

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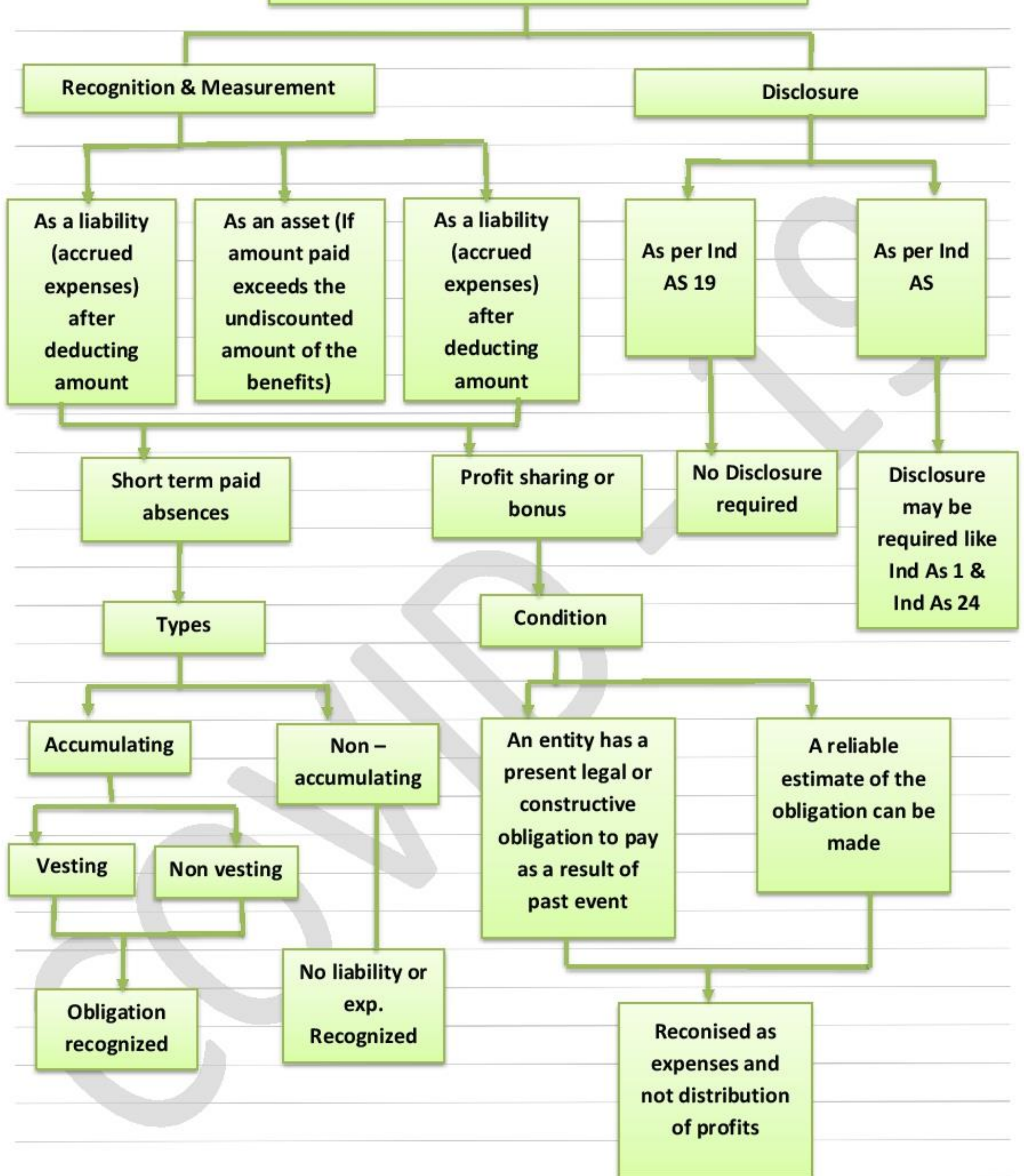
SHORT TERM EMPLOYEE BENEFITS
Recognition & Measurement
Disclosure
As a liability (accrued expenses) after deducting amount
As an asset (If amount paid exceeds the undiscounted amount of the benefits)
As a liability (accrued expenses) after deducting amount
As per Ind AS 19
As per Ind AS
Short term paid absences
Profit sharing or bonus
No Disclosure required
Disclosure may be required like Ind As 1 & Ind As 24
Types
Condition
Accumulating
Non – accumulating
An entity has a present legal or constructive obligation to pay as a result of past event
A reliable estimate of the obligation can be made
Vesting
Non vesting
Obligation recognized
No liability or exp. Recognized
Reconised as expenses and not distribution of profits

Termination Benefits

An entity is required to recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) When the entity recognises costs for a restructuring which is within the scope of Ind AS 37 and involves the payment of termination benefits.

Example on Termination Benefits

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows:

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of Rs 30,000. Employees leaving before closure of the factory will receive Rs 10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are Rs 3,200,000 (ie 20 × Rs 10,000 + 100 × Rs 30,000). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is Rs 10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (ie all employees will leave employment when the factory closes). Therefore, the entity recognises a liability of Rs 1,200,000 (ie 120 × Rs 10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of Rs 200,000 (ie Rs 2,000,000 ÷ 10) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

MAJOR DIFFERENCES BETWEEN AS 15 & IND AS 19

Basis Of Differences	AS 15	IND AS 19
CONSTRUCTIVE OBLIGATION	AS 15 does not deal with Constructive Obligation	Employee benefits arising from Constructive obligations are also covered.
RECOGNITION OF ACTUARIAL GAINS OR LOSSES	Actuarial Gains or Losses are recognised immediately in the P&L A/c	This standard requires to recognize Actuarial Gain or Loss in OCI
DISCOUNTING RATE	Discount rate should be based on Market Yields on High Quality Corporate Bonds. If there is no deep market in such bonds, Market Yields on Govt. Bonds can be taken for Discount Rate.	Discount rate shall always be calculated by reference to the Market Yields on Government Bonds.
PAST SERVICE COST	To the extent the benefits are vested, PSC is charged to P&L. For benefits not yet vested, the PSC is amortised on straight line basis over the remaining period of vesting.	Entire PSC should be charged to P&L immediately, No need to defer.

Constructive Obligation: An Obligation to pay that arises out of entity's actions rather than a contract. It may typically occur from past conduct.

Example: Established Pattern of Past Practice, published policies, or specific statement by which entity has indicated to other parties that it will accept certain responsibilities and as a result of which entity has created a valid expectation on the part of those parties that it will discharge their responsibilities.

Additional Questions

Q157 (RTP NOV. 18)

A Ltd. prepares its financial statements to 31st March each year. It operates a defined benefit retirement benefits plan on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2017, the actuaries advised that the present value of the defined benefit obligation was Rs 6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was Rs 5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of Rs70,00,000 into the plan and the plan paid out benefits of Rs42,00,000 to retired members. Both these payments were made on 31st March,2018.

The actuaries advised that the current service cost for the year ended 3 1st March, 2018 was Rs 62,00,000. On 28th February, 2018, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by Rs 15,00,000 from that date.

During the year ended 31st March, 2018, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by Rs 80,00,000. Before 31st March, 2018, A Ltd. made payments of Rs 75,00,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 2018, the actuaries advised that the present value of the defined benefit obligation was Rs 6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were Rs 5,60,00,000.

Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution:

All figures are Rs in '000.

On 31st March, 2018, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be 12,000 (68,000 – 56,000).

For the year ended 31st March, 2018, A Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be 6,200. The same treatment applies to the past service cost of 1,500.

For the year ended 31st March, 2018, A Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of 8,000 (60,000 – 52,000). The amount of the finance cost will be 400 (8,000 x 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of 500 (8,000 – 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2018, the remeasurement loss will be 3,400 (Refer W. N.).

Working Note:

Remeasurement of gain or loss

	Rs in '000
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

Q158 (May 18 – RTP)

ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1st April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by Rs 80 million. Given below is the composition of this amount:

Employees with more than 5 years' of service at 1st April, 2015	Rs 60 million
Employees with less than 5 years' of service at 1st April, 2015	Rs 20 million

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.

Comment on the treatment of Rs 80 million of the defined benefit obligation in the financial statements both as per AS 15 and Ind AS 19.

Solution:

Under AS 15, a past service cost of Rs60 million needs to be recognized immediately, as those benefits are already vested. The remaining Rs20 million cost is recognized on a straight line basis over the vesting period, i.e., period to two and half years commencing from 1st April, 2015.

Under Ind AS 19, the entire past service cost of Rs80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

Student Notes:-

COVID-19

Student Notes:-

COVID-19

Student Notes:-

COVID-19

Student Notes:-

COVID - 19