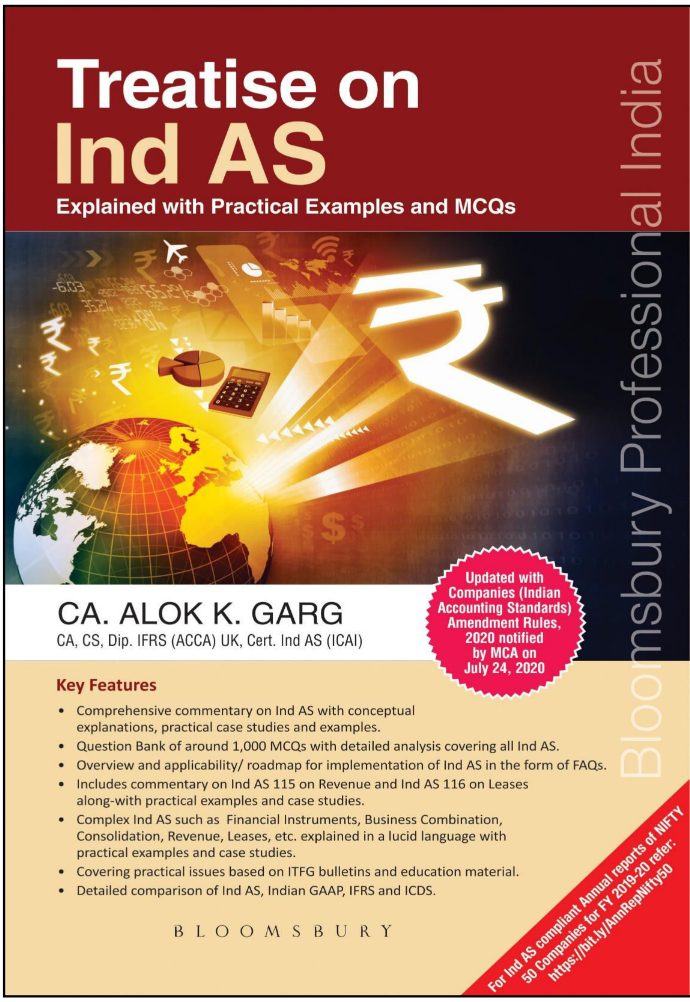


AS 15

Employee Benefits

Pune Branch of WIRC of ICAI

November 21, 2020

History of the Standards

AS 15 (IGAAP)

- Issued 1995 – Accounting for Retirement benefits in the financial statements of Employers
- Revised 2005 – Employee benefits

Ind AS 19 (Ind AS)

- Notified on 16th February 2015

IAS 19 (IFRS)

- Issued 1983 – Accounting for Retirement benefits in Financial Statements of Employers (issued by IASC)
- Revised 1993 – Retirement benefits costs (IASC)
- Revised 1998 – Employee benefits (IASC)
- Revised 2011 - Employee benefits (issued by IASB)

Objective

To prescribe the accounting and disclosure for employee benefits. This standard required an entity to recognise:

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

Scope

- This Standard shall be applied by an employer in accounting for all employee benefits, except employee share-based payments.

Definition of Employee

- AS 15 silent

- Employee may provide services to an enterprise on a
  - Full time
  - Part time
  - Permanent
  - Casual
  - Temporary basis

- Employer Employee relationship includes Contract of Service not Contract for Service.

Benefits payable during & after Employment

- Wages, Salaries, Bonus
- Sick, Maternity, Paternity Leave
- Provident Fund Contribution
- Gratuity
- Perquisites
- Long term bonuses, Long service awards
- Loyalty awards
- VRS
- Pension etc.

Employee Benefits and Categories

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.

Type of Employee Benefits

- **Short term**
- **Post Employment**
- **Other Long term**
- **Termination**

Employee Benefits and Categories

Short Term

- Expected to be settled wholly before 12 months
- Wages, Salaries & Bonus

Post Employment benefits

- After completion of employment
- Gratuity, Pension and PF

Other Long Term benefits

- Residual category (settled after 12 months)
- Sabbatical leave, Jubilee benefits & Loyalty bonus

Termination benefits

- On Termination
- VRS, Notice pay

Short Term Employee Benefits

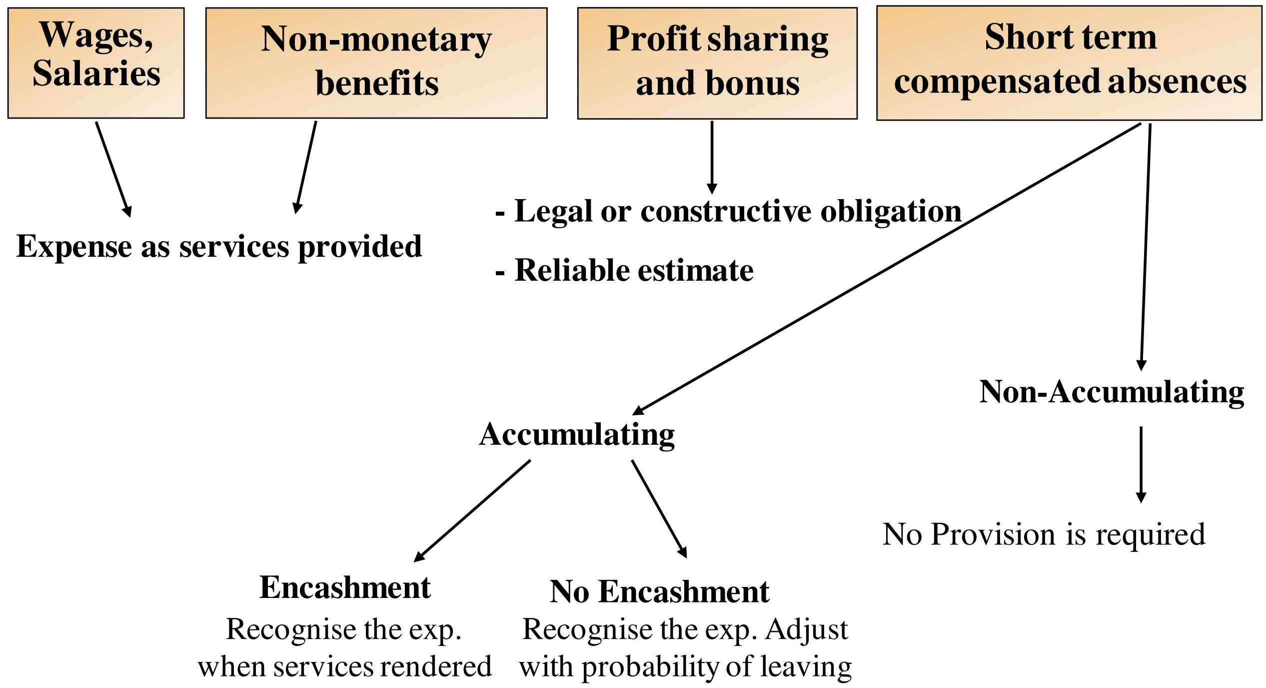
Short-term employee benefits are employee benefits (other than termination benefits) which fall due ***wholly within twelve months*** after the end of the reporting period in which the employees render the related service.

(a) wages, salaries and social security contributions;
(b) paid annual leave and paid sick leave;
(c) profit-sharing and bonuses; and
(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

Short Term Employee Benefits - Wages, Salaries, Bonus

- Recognition straight forward
- Capitalisation of employee benefits if allowed by other standards
- Bonus payable if employee remain in service

Short Term EB - Recognition summary



Case Study -1

ABC Ltd. has a practice of paying a performance bonus to its sales staff. Past evidence indicates that the staff who meet their sales targets received a bonus of 10% of their current salary package at the year end. Sales staff who were not in service throughout the whole year received a bonus in proportion to their service period. The bonus are paid in the first quarter of the following year, to the sales staff who are still employed by the entity at the year end.

At the year end, seven of the sales staff meet their sales targets. Two of the seven began their employment halfway through the year and one of them left the entity at the year end.

Discuss recognition in accordance with AS 15.

Solution : Employee benefit exp. to be recognised : 4 to receive 10%, 2 to receive 5%

Case Study - 2

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick 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 Dec 20X1 the average unused entitlement is 2 days per employee.

The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each.

Solution : The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31 Dec 20X1 (one and a half days each, for eight employees). **Therefore, the entity recognises a liability equal to twelve days of sick pay.**

Post Employment Benefits

What are Post-employee benefits?

Benefits (other than termination benefits) **payable after the completion of employment** and include:

a. retirement benefits, such as **pensions**; and
b. other post-employment benefits, such as post-employment life insurance and **post-employment medical care**.

Post Employment Benefits

Defined contribution

The entity pays agreed contributions into a plan and has no further liability

Accounted for on an accruals basis

Defined benefit

Benefit to be paid is certain and finance to be done accordingly

Accounted for using the projected unit credit method

Post-employee benefits - Defined Contribution plan

What to recognize in **Balance Sheet** under DC Plan?

Contribution payable to the plan − **Contribution already paid** = **Liability or accrued expense / (Asset or prepaid expense)**

- **No actuarial assumptions** are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.
- Disclose the amount recognised as an expense.

Post-employee benefits - Defined Contribution plan

What to recognize in **Profit or loss** under DC Plan ?

Contribution payable to the plan = **Expense unless another standard requires or permits the inclusion of the benefits in the cost of an asset**

- **If whole of the contributions are not due within 12 months after period end, same shall be discounted.**

Actuarial Valuation method

- An entity shall use the **projected unit credit method** to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

- Actuarial assumptions shall be unbiased and mutually compatible.

Actuarial Valuation

- How many of you have read an Actuarial Valuation Report?
- How many of you have **seen** an Actuarial Valuation Report?
- Requirement of AS 15 to get an actuarial reports

Post Employment Benefits –Defined Benefits plan

Steps to be followed for accounting of DB Plan	Make reliable estimate of the amount of benefit earned by employees in the current & prior periods & to make estimates **(actuarial assumptions) about demographic and financial variables.**
	Discount the benefit using **Projected Unit Credit Method** to determine the present value of defined benefit obligation & current service cost.
	Determine the **fair value of plan assets** (if funded).
	Determine the total amount of **actuarial gains & losses**, which shall all be **recognised in P&L**.
	Where a plan has been introduced or changed, determine the resulting **past service cost**.
	Where a plan has been **curtailed or settled**, determine the resulting gain or loss.

Post Employment Benefits –Defined Benefits plan

Plan Asset:
Fair value of any plan assets is deducted in determining the amount recognised in the balance sheet.

Determine Fair value by reference to:

a. Market Price
b. When no market price is available, estimated fair value for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

Post Employment Benefits –Defined Benefits plan

Past Service Cost:
Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan.

Recognition of Past Service Cost:
Past service cost is to be measured and recognised immediately in the income statement (**including unvested amounts**) when any of the following occurs:

- When restructuring costs (i.e. costs related to restructuring **that result in past service costs**) are recognised
- When termination benefits related to amendments **that result in past service costs** are recognised
- When plan amendments **that result in past service costs** occur.

Post Employment Benefits –Defined Benefits plan

XYZ operates a pension plan that provides a pension of 1.5% of the final salary for each year of service. The benefits become vested after seven years of service. On 1 January 2006 the enterprise increases the pension to 2% of the final salary for each year of service starting from 1 January 1999. On the date of the improvement, the present value of the additional benefits for service from 1 January 1999 to 1 January 2006 is as follows: Employees with more than seven years' service on 1 January 2006: Rs. 275,000 and less than 7 years: Rs. 221,000 (average 4 years to go):

The enterprise shall recognises the total amount of Rs. 496,000 (275,000+221,000) immediately, as for the sake of recognition it **does not make any difference as to whether the benefits are already vested or not**.

Post Employment Benefits –Defined Benefits plan

What to recognize in Balance Sheet under DB Plan?

Defined Benefit Liability = **Present value of the defined benefit obligation at the end of the reporting period** − **Fair value at the end of the reporting period of plan assets (if any)**

If the amount determined above is **negative**, then apply asset ceiling.

The asset ceiling is the present value of any economic benefits **available in the form of refunds from the plan or reductions in future contributions to the plan**.

Post Employment Benefits - Defined Benefits plan

What to recognize in Profit or loss under DB Plan?

Current service cost + **Interest cost** + **Interest income on plan assets** + **Past service cost** + **Effect of any curtailments or settlements**

+ **Actuarial gain or loss**

Interest Cost = Present value of the defined benefit obligation throughout a period **x** Discount rate at the beginning of the period.

Case Study : Actuarial gains and losses

Plan Assets

At 1 April 2019, the fair value of plan assets was - Rs. 10,000.
Contribution to the plan assets done on 31 March 2020 - Rs. 3,000
Amount paid on 31 March 2020 - Rs. 300
At 31 March 2020, the fair value of plan assets - Rs. 14,700
Actual return on plan assets - Rs. 2,000

Defined Benefit Obligation

At 1 April 2019, present value of the defined benefit obligation – Rs. 12,000.
At 31 March 2020, present value of the defined benefit obligation – Rs. 15,500.
Actuarial losses on the obligation for 2014 - Rs. 100.
Current Service Cost - 2,500
Benefit paid - Rs 300
Discount rate used to calculate defined benefit liability 10%

Advise the disclosures to be made in financial statement and amount to be charged to P&L.

Other Long Term Benefits

Benefits (**other than post-employment benefits and termination benefits**) that are **not due to be settled wholly within 12 months** after end of the period and include:

- **Examples**

  (a) Long term compensated absences

  (b) long term disability benefits

  (c) Profit sharing and bonus payable 12 months or more

  (d) deferred compensation paid 12 months or more after the end of the period in which it is earned

- **Recognition and Measurement**

  Same like post employment defined benefits.

Termination Benefits

What is meant by Termination Benefit?

Termination benefits are employee benefits payable as a result of either:

- an enterprise's decision to terminate an employee's employment before the normal retirement date; or

- an employee's decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement)

Termination Benefits - Recognition

- An enterprise should recognise termination benefits as a liability and an expense when, and only when:

  (a) the enterprise has a present obligation as a result of a past event;

  (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

  (c) a reliable estimate can be made of the amount of the obligation.

Disclosure Requirements

Measurement and Disclosures with respect to Actuarial valuation - Summary

Benefits	Actuarial Valuation	Disclosures
Short Term	No	No
Post Employment	Yes	Yes
Other Long Term	Yes	No
Termination	No	No
*Termination benefits payable after 12 months needs to be discounted		

Presented by :
Alok Garg
CA, CS, Dip. IFRS (ACCA) UK, Cert. Ind AS (ICAI), B.Com (Hons.)
Author of book "Treatise on Ind AS" ***(Published on Aug 15, 2020)***
Co-Author of book "An Insights in to Ind AS"
Visiting Faculty of ICAI for Certificate Course on Ind AS
999 999 1543
caalokgarg@gmail.com