IND AS 19

Employee Benefits

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Areas to be covered

1. What is Employee Benefit
2. Applicability of AS-15.
3. Objective of this standard.
4. Scope of this standard.
5. Key terms in Employee Benefits.
6. Major change in IND AS -19 & AS-15.
7. Disclosure under IND AS-19.

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What is Employee Benefits

- Are all forms of consideration given by an entity in exchange for service rendered by employees.

Includes:

- Short-term employee benefits (Monetary and Non Monetary benefits for current employees, payable within 12 months)
- Post-employment benefits (pensions, other retirement benefits)
- Other long-term employee benefits (long-service leave, long term disability benefits, not payable wholly within 12 months)
- Termination benefits (Exchange for voluntary redundancy or an entity's decision)

Applicability of AS-15

Particulars	Corporates Entities		Non corporate Entities			
	Non -SMC	SMC	Level -1	Level-11	Level-111	Level -IV
Applicability Of AS-15	Fully	Partly	Fully	Partly	Partly	Partly

For SMC Company – Companies required to provide disclosures as per para 120 (l)of the AS 15 for the above plans (If applicable).

For Non – SMC Company – Companies required to provide complete disclosures as per para 120 of the AS 15 for the above plans (If applicable).

Small and medium Sized companies (SMC) and Non Small medium size companies. AS-15 is applicable entirely to Non- SMC whereas on SMC AS-15 is applicable partly.

* Note- Limit of employee more than 50 is for non corporate entities subject to certain other conditions, not for corporate entities.

Objective

- To prescribe accounting & disclosure of employee benefits
- To require an entity to recognize.
- (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) An expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits

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Scope

- Covers all employee benefits, except those covered under Ind AS 102 (share based payments).
- Doesn’t apply to employee benefit plan companies.
- Covers benefits provided under – formal plans, legislative requirements, industry arrangements, informal practices giving rise to constructive provision.
- Benefits include – short-term benefits, post-employment benefits, termination benefits, other long- term benefits.
- Covers benefits provided to employees, their dependents or beneficiaries.
- Covers all employees (full / part time), directors & other management personnel.

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Short term employee benefits

- Short term employee benefits include items expected to be settled wholly before twelve months after the end of the annual reporting period in which employee render the related services.

- It include:
  - (a) Wages, salaries and social contributions;
  - (b) Paid annual leaves and paid sick leave;
  - (c) Profit sharing and bonuses; and
  - (d) Non- monetary benefits (such as medical care, housing,. car and free or subsidised goods and services) for current. employees.

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Short term employee benefits

- Unpaid at the end of the accounting period to be recognised as a liability (accrued expense)
- Paid in advance to be treated as pre-payment.
- Cost of short term benefit to be recognised as expense in profit and loss Account (unless it is included in cost of assets eg: PPE)- Undiscounted
- Cost of accumulating paid leaves to be measured as additional payment which the entity expects to pay as a result of unused entitlement that has accumulated at the end of the reporting period
- Profit shares/bonus payables within 12 months after the end of accounting period to be recognised as expense
- No specific disclosure requirement.

Short term employee benefits

<u>Example</u> :

- Consider an employee with salary of 10,000 Rs per month and 1 month bonus payable every year. If at the end of the year, 2 months salary along with bonus are unpaid, then these are recognised as a liability. However if 2 months extra salary has been paid to the employee, then it is treated as an asset.

- For Short term employee benefits, no specific disclosures are required under Ind AS 19.

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Short term employee benefits

<u>Example</u> :

- When employee participate in profit sharing plan, Whether the profit share should be treated as an appropriation or charge to the profit and loss account.

- Obligation under profit sharing plan result from employee services. Therefore, an entity recognize the cost of profit sharing not a distribution of net profit but as expense determine as per IND AS-19.

Long term Post employee benefits

- Payable after the completion of employment (Other than termination benefits and short term benefits

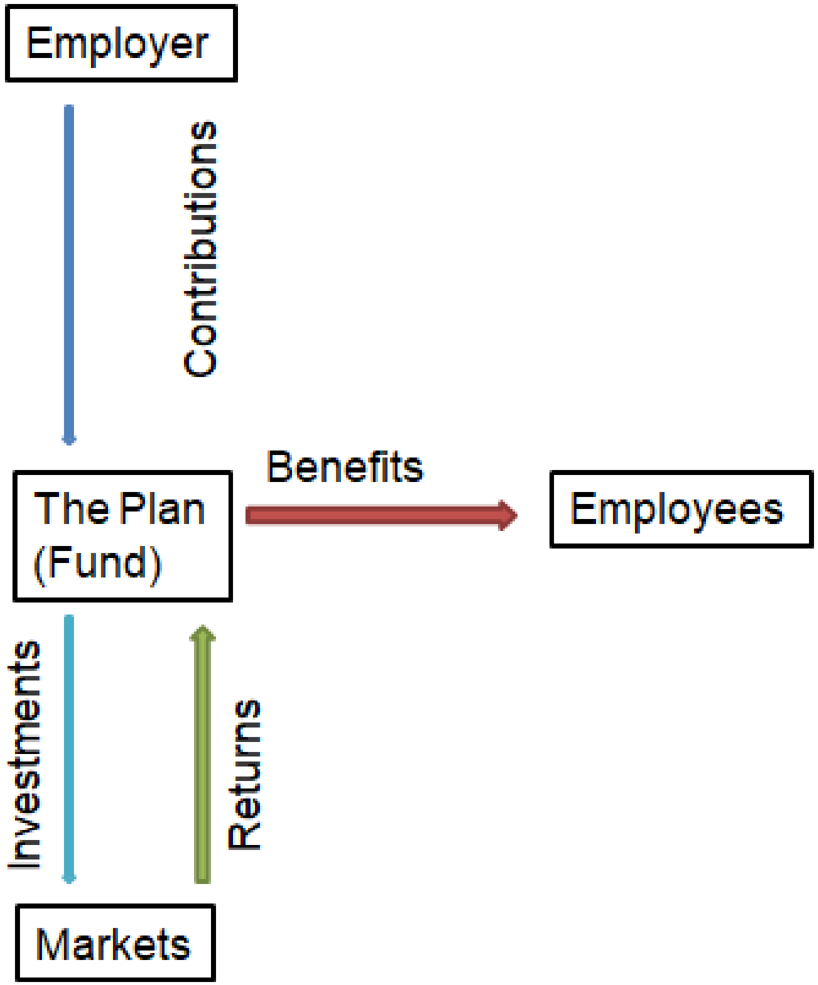
- For this the entity runs a ‘plan’ or ‘scheme’ & makes regular contributions (even employees contribute) & money is invested in assets (stocks, bonds etc.)

- Post-employment benefits are provided out of the income of investments (dividends, interest) or from sale of some assets
- Two types :

  (a) **Defined contribution plan**

  (b) **Defined benefit plan**

Long term Post employee benefits



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Long term Post employee benefits

POST EMPLOYMENT BENEFITS (RETIREMENT BENEFITS) Defined Contribution Plans

Under DCP, entity has constructive or legal obligation to the extent of contribution to a plan/fund which is managed by Third Party.

Examples:-

a) Contribution to Provident Fund Which is managed by Ministry of Employment.

b) Payment of Insurance Premiums to insurance Companies for life Insurance/Medical Care etc.

Under these plans, Actuarial Risk and Investment Risk falls on employee because Entity's obligation ends after contributing to the Plans.

Long term Post employee benefits

Concept 1: Accounting For Defined Contribution Plans

As per the Provisions of IND AS 19, Accounting for Defined Contributions plan is very simple .The following points may be considered:

These Plans are accounted for on undiscounted basis.
These plans are accounted for without actuarial assumptions.
The difference between contribution payable and contribution paid will be considered as outstanding or prepaid expense.
The amount of contribution payable will be considered as an expense in P&L A/C & SOPL as follows:

Prepaid Expense (Bal.) Dr.	**xxx**	
Employee Benefit Expense Dr.	**xxx**	
To Cash/bank		**xxx**
To Outstanding Expense		**xxx**
Being expense Recognized		

Profit & Loss A/c Dr.	**xxx**	
To Employee benefit expense		**xxx**
Being expense Written off		

Long term Post employee benefits

Concept 2: Accounting For Defined Benefit Plans

As per the provisions of IND AS 19, accounting for DBP is complex due to following reasons:
Use of actuarial assumptions for measurement of Defined benefit obligations (accumulated Cost) and current service cost (Year's Cost).

Use of discounting Model due to Promised Payment on a future date.
Actuarial Gain/Loss.

These Plans can be funded or unfunded in nature. In most of the cases, these plans are usually unfunded.

Long term Post employee benefits

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- PLANS
  - FUNDED
    - Third party will manage the funds ,but entity has promised employees to compensate the short falls (if any)

      Note: in this case defined Conntribution Plans shall be accounted for Defined Benefit Plans)
  - UNFUNDED
    - Entity will manage funds for payment of Benefits

Long term Post employee benefits

Steps for accounting under complex model

Step 1: Recognition and measurement of current service cost and present value of defined benefit obligation.

Project unit credit method(Actuarial method)
Benefit Period
Actuarial assumptions

Step 2: Adjustments in PVDBO

Benefits paid cash payments
Past service cost
Settlement
Remeasurement

Long term Post employee benefits

Adjustment 1: Accounting for Benefits Paid

At the time of retirement of employees, entity will pay the promised amount to the employee for which it had created PVDBO A/C.

The following entry will be passed in given case:
Journal**:**

PVDBO A/c Dr.	**XXX**	
To Bank		**XXX**
Being benefit paid		

Statement showing balance in PVDBO for current year:

Particulars	Amount (INR)
Opening Balance	XXX
(+) Interest cost (opening Balance *10%)	XXX
(+) Current Service cost	XXX
(-) Benefit paid	XXX

Long term Post employee benefits

Adjustment 2: Past service cost

(A) Amendment in plan
(B) Curtailment of plan

(A) Amendment of plan

PVDBO – Existing Balance

Total service- 10 years	Completed - 3 years	Balance – 7 Years

No Assumptions Changed

If Existing PVDBO is increased or decreased i.e., PVDBO balance increased or decreased then it is amendment.

If PVDBO existing balance increased - Positive Change
If PVDBO existing balance decreased - Negative Change

Any amendment in plan is debited to P&L A/C.
No Concept of vested/Unvested in IND AS 19 as in AS 15.

Long term Post employee benefits

B) Curtailment

Due to closure of segment, benefits not given i.e., PVDBO not given.

No PVDBO given, i.e. No compensation given
Journal:

PVDBO A/c Dr.	**xxx**	
To Profit & Loss A/c		**xxx**
100% profit booked		

Adjustment 3: Settlement

In settlement PVDBO is compared with amount paid and there may be gain or loss.
But in curtailment there is always a gain.

Long term Post employee benefits

Case1:

If benefits paid:

Journal**:**

PVDBO A/c Dr.	**XXX**	
To Bank A/c		**XXX**

Case2:

If plan changed, then earlier balance of PVDBO to be compared with new Balance and entry will be, then difference will be debited or credited to P&L as Past service cost.

Case 3: If PVDBO increased (Suppose if Company performed good).

Journal:

PSC (Profit & Loss) Dr.	**xxx**	
To PVDBO(Balance sheet) A/c		**xxx**

If PVDBO Decreased (If company performed poor).

Journal:

PVDBO(Balance sheet) A/c Dr.	**xxx**	
To PSC (Profit & Loss)		**xxx**

Long term Post employee benefits

Case 4: Curtailment

Journal:

PVDBO A/c	Dr.	XXX	
To Past service Cost A/c			XXX
100% profit booked			

Past service cost A/c	Dr.	XXX	
To Profit & Loss A/c			XXX

Case5: Settlement

PVDBO A/c	Dr.	XXX	
To Bank			XXX
To Gain on settlement (P&L)			XXX

Now: PVDBO: Opening Balance
(+) Interest (OB * %)
(+)Current Service Cost
(-)Benefits Paid
(+)Past Service Cost
(+)Gain/Loss on Settlement
(-)Compensation paid on settlement

Long term Post employee benefits

ADJUSTMENT 4: REMEASUREMENT

ASSUMPTIONS: 1.Demographic
2. Financial

If PVDBO is revised due to change in assumptions like Discounting rate, Salary estimation change, Moratility rate Then it is a remeasurement.

If change due to change in performance of company then it is amendment.

Any Change in the PVDBO balance due to change in assumptions shall be Actuarial Gain/Loss and shall be taken to other **COMPREHENSIVE INCOME** and never be routed through P&L.

↓

Part of other equity

Very important: Change in plan due to change in amendment/settlement/curtailment.

Past service cost ↓ Profit & Loss

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Difference between DCP VS DBP

Particulars	DCP	DBP
• What's defined?	• Contribution by employer	• Benefits to employee
• Quantum of benefit	• Fixed – predefined, does not change for employer, but employee benefit will depend on fund performance	• Contingent upon actuarial assumptions e.g. final salary, salary increases, length of service, life expectancy
• Entity's obligation	• To contribute to fund	• To guarantee agreed benefit
• Risk of investments & • actuarial assumptions	• Faced by employee	• Faced by employer
• Accounting – recognition	• P/L as expense • Only employer contribution • BS as liability • Only payable contribution	• P/L as expense • Current service cost, past service cost, gain/loss on settlement/transfer • OCI as gain/loss • Remeasurement gain/loss (not reclassified) • BS as asset/liability • Net obligation or asset
• Accounting – measurement	• No discounting is required, no actuarial assumptions	• The DBP obligation is measured at PV & DBP plan asset at FV; actuarial assumptions required

Key terms in Defined benefits Plan

- **Net defined benefit liability (asset)-**The deficit or surplus (adjusted for any effect of limiting a net DBP asset to the asset ceiling i.e. PV of future refunds/reductions in future contributions to the plan).

- **Deficit or surplus** - PV of DB obligation less FV of DB plan assets.

- **PV of DB obligation** - PV, (without deducting any plan asset), of expected future payments required to settle the obligation resulting from employee service in the current & prior periods.

- **The discount rate to be used-**

  (a) Determined by reference to the market yields at the end of the reporting period on government bonds.

  (b) For currencies other than Indian Rupee, reference may be made to high quality corporate bonds.

Key terms in Defined benefits Plan

Plan assets –

The assets held by a long term employee benefit fund and qualifying insurance policies, for the purpose of paying benefits to employee, to be measured at FV.

Use of plan assets :

Are held by an entity (fund) that is legally separate from the reporting entity & exists solely to pay employee benefits and are not available to the reporting entity’s own creditors (even in bankruptcy) & can’t be returned to the reporting entity unless either Remaining assets are sufficient to meet all obligations of the plan or They are returned to reporting entity to reimburse it for benefits already paid by it

Key terms in Defined benefits Plan

- **Current service cost –**

Current service cost is the increase in the PV of DBP obligation resulting from services rendered by employees during the current period.

- **Past service cost –**

Past service cost is the change in the PV of DBP obligation relating to service in prior periods resulting from amendments or curtailments to the DB plan.

- **Gains & losses on settlement –**

Gain & losses on settlement is the difference between the PV of DB obligation and the settlement price (may happen through transfer of plan assets & obligation to third parties or due to lump sum settlement & scrapping the plan)

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DBP – recognition & measurement

- **Balance sheet :**

(a) DBP obligation (liability) and DB plan asset (asset) - the net amount to be recognised in the BS
(b) DBP obligation is recognised at present value
(c) DB plan assets are valued at Fair Value

- **Profit and Loss A/c :**

(a) Current service cost
(b) Past service cost
(c) Net interest expense (or income) on DB liability (or asset)
(d) Gain/loss on settlement of DB obligation

- **OCI (under "items that will not be reclassified to P/L")**

(a) Actuarial gain/loss on obligation
(b) Return on DB plan assets (excluding the amount of net-interest)

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Workings at the reporting date (actuarial valuation)

DB Obligation Liability	DB Plan asset (asset)
Opening balance (Cr.) + current service cost P/L + past service cost P/L + interest cost (@ discount rate) P/L - Benefits paid CF +/- transfers CF (balancing figure shows actuarial gain or loss) - OCI = closing balance (Cr.) BS	Opening balance (Dr.) + contributions made -(CF) + interest (returns) @ discount rate P/L - Benefits paid -(CF) +/- transfers -(CF) (balancing figure shows return on plan assets) - OCI = closing balance (Dr.) -(BS)

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Actuarial assumptions

Demographic assumptions :

- Mortality rates.
- Rates for employee turnover, disability, & early retirement.
- Proportion of plan members with dependents who will be eligible for benefits.
- Claim rates under medical plans.

Financial assumptions :

- Discount rate.
- Benefits levels & future salary increases.
- Future medical costs including claim handling costs.

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Long term Post employee benefits

- Payable after the completion of employment (Other than termination benefits and short term benefits

- For this the entity runs a ‘plan’ or ‘scheme’ & makes regular contributions (even employees contribute) & money is invested in assets (stocks, bonds etc.)

- Post-employment benefits are provided out of the income of investments (dividends, interest) or from sale of some assets

- Two types :
  (a) Defined contribution plan
  (b) Defined benefit plan

Other long term employee benefit

- Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

- Other long term benefits need to be actuarially valued using the Projected Unit Credit method

- **Examples:-** Privilege Leave - Sick Leave - These are not post employment benefits since could be availed while in employment. Long term incentives - Loyalty bonus – Re-settlement allowance.

- No specific disclosure unless required by other IND AS. To be recognized at Projected Unit Credit method.

Termination Benefit

- Termination benefits are employee benefits payable 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 voluntary redundancy in exchange for those benefits

- An enterprise should recognize termination benefits as a liability and an expense at the earlier of the following dates:

  1. The entity can no longer withdraw the offer for those benefits
  2. The entity recognizes restructuring costs within the scope of Ind AS and involves the payment of termination benefits

- **Benefits -**Benefits that are expected to be settled 12 months after B/S date should be discounted using the logic of other Long-term Benefits, otherwise should be recognized using requirement of short term Benefits.

Major changes in IND AS – 19 from AS-15

- **Actuarial valuation is based on certain assumptions. Changes in these assumptions give rise to actuarial gains and losses.**

- AS 15 recognised the actuarial gains and losses immediately in the profit and loss account.
- Ind AS 19 requires the same shall be recognised in Other Comprehensive Income (OCI)

Major changes in IND AS – 19 from AS-15

AS 15	IND AS 19
Under AS 15, employees include Whole time directors only.	Under IND AS 19, employee includes all types of directors.
Under AS 15, actuarial gains and losses are to be recognized immediately in the statement of profit and loss.	Ind AS 19 requires the recognition of the actuarial gains and losses in the statement of other comprehensive income. Further, the actuarial gains and losses, so recognized in other comprehensive income, should be recognized immediately in retained earnings and should not be reclassified in the statement of profit or loss of the subsequent period.
It does not deal with the same.	Employee benefits arising from constructive obligations are also covered.
AS 15 always requires the use of market yield on government bonds.	As per IND AS 19, the discount rate shall be determined w.r.t. the market yield on govt. bonds. But, in case of subsidiaries, associates, joint ventures and branches domiciled outside India, the discount rate for calculating post employment benefit obligation should be determined w.r.t. market yield on high quality corporate bonds and in the absence of a deep market for such bonds, the government bonds shall be used.
AS 15 neither require nor encourages the entity to involve a qualified actuary for measurement of material post-employment benefits.	Ind AS 19 encourages, but does not mandate an entity to involve a qualified actuary in the measurement of material post-employment benefit obligations.

Disclosure under IND AS-19

- **Information on characteristics**
  1. Nature of benefits.
  2. Expense recognition policy.
  3. Description of any other entity’s responsibility e.g : Trustees.

- **Information on events**
  1.Curtailments
  2. Amendements
  3. Settlements

- **Detailed reconciliation of DBO and plan assets**
- **Assets Reconciliation**
- **Actuarial assumption**

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Thank You!!