

AS 15 - Employee Benefits

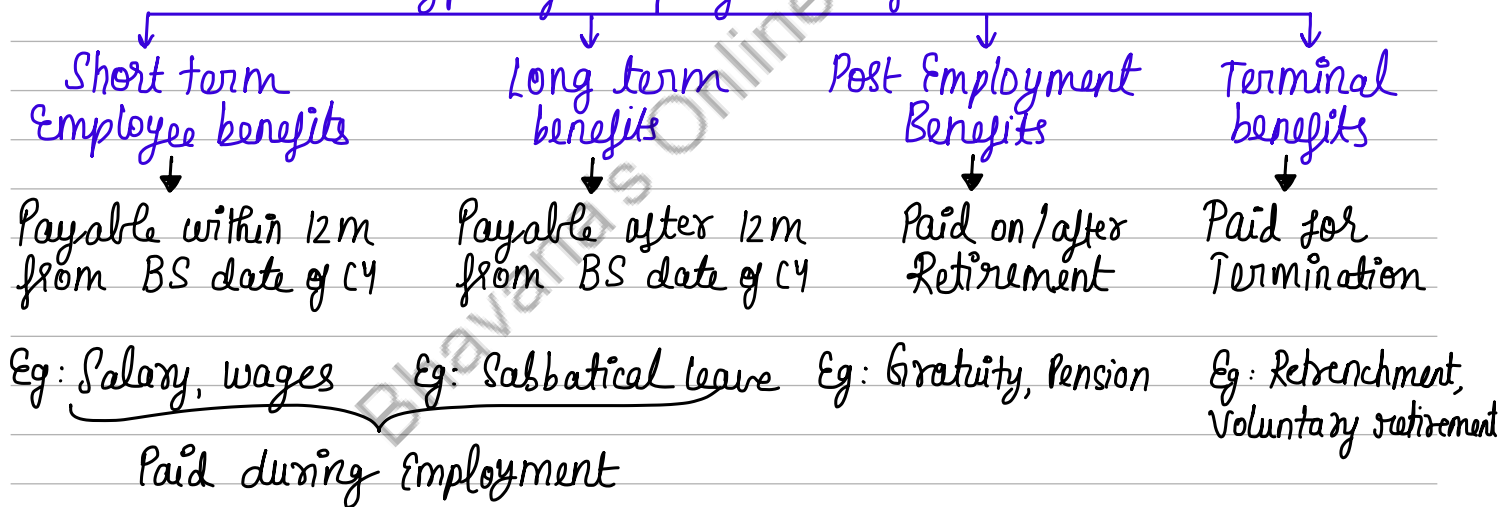
1. Employee Benefits

- All forms of Consideration given by an entity in exchange for services rendered by employees
- AS 15 deals with accounting & disclosure of EB in books of employer except employee share based payments [ESOP]

- | | | |
|---|--|-----------|
| • EB paid due to : | Types of Employees covered : | Paid in : |
| - formal Plan/ agreement | - All employees [full time, part-time, WTD, casual staff, etc.] | - cash |
| - Legislative requirement | - Includes EB given to dependents [spouse, children, others] | - Kind |
| - Informal Practices [Pattern creating expectation among employees] | - Pay made to emp/ dependent/ others [legal heir, insurance co., etc.] | |

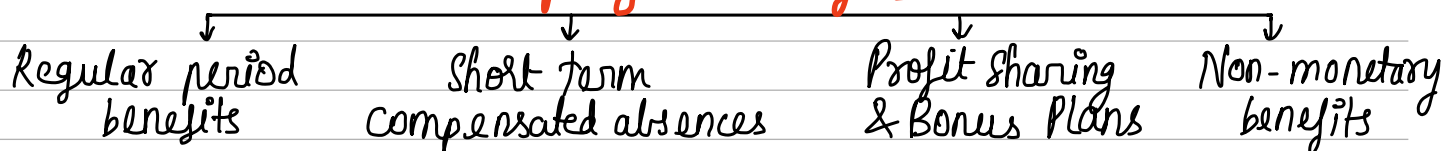
- It should be a contract of service & not contract for service

Types of Employee Benefits



- **Applicability** - All Level 1 enterprises. Certain exemptions are given to other than Level 1 enterprises, depending whether they employ 50/ more employees.

2. Short Term Employee Benefits



I] Salary / Wages

- Record Employee benefit expense in the period in which employee renders the service
- Any difference amount between expense recognized & cash payments made should be treated as asset / liability, as the case maybe

Journal Entry

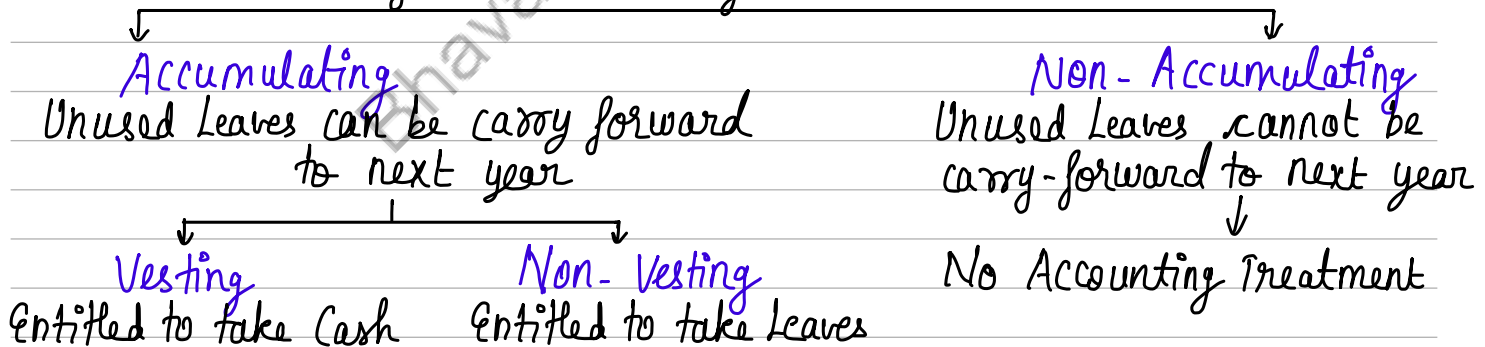
Accrued & paid	Accrued but not paid	Paid in Advance
EBE A/c .. Dr To Bank A/c	EBE A/c .. Dr $\text{To Salary outstanding A/c}$ (liability)	$\text{Prepaid Salary A/c .. Dr (asset)}$ To Bank A/c

III] Bonus / Profit Sharing plan

1. Normal Bonus - Bonus per employee \times No. of employees
2. Profit sharing plan - Profit earned by entity during the year \times Share in profit expected payout %

II] Short term Compensated Absences

Leaves for which salary will not be deducted



Calculation of leave compensation (to create provision)

- **Vesting** - Total no. of employees \times Total no. of unused leaves \times Salary per day
- **Non-Vesting** - No. of emp. expected to utilize unused leaves in next yr \times No. of unused leaves expected to be utilized by each emp. in next yr \times Salary per day

Note :

- Total EBE in a yr = Salary paid + Provision made
- Leaves can be utilized either on FIFO/LIFO Basis. [Assume FIFO if Qn is silent]

3. Post Employment Benefits

Defined Contribution Plan (DCP)

- Entity pays fixed contribution to a separate fund & will have no further obligation to pay any amt to employees
- Actuarial risk & investment risk fall on employee
- Record expense for amt contributed

Eg : Provident fund, gratuity

Defined Benefit Plans

- Plans other than DCP [Entity has agreed to pay directly to employees post employment]
- Actuarial risk & investment risk fall on employer
- Apply actuarial calculation to determine charge

Defined benefit Plan

Plan Assets

Plan Assets A/c [Asset]

To balance b/d [opg bal.]	
To Bank A/c [contribution]	
To Expected Return on Plan Assets A/c	
To Actuarial gain A/c	(b.f)
	xx

By Bank A/c [benefits paid]	
By Actuarial loss A/c	(b.f)
By balance c/d [clg bal.]	(Fair Value)
	xx

Qn Specific Note :

- Conversion of Expected return rate p.a to half yr charging rate = $\sqrt{1+R}-1$
- Calculation of Expected Return :
 - 1st six months = Bal b/d x Charging rate
 - 2nd six months = [Bal b/d + 1st six months ER + Contribution - Benefits paid] x Charging rate

2. Actual Return on Plan Assets

$$= \text{Expected Return on Plan Assets} + \text{Actuarial gain} - \text{Actuarial loss}$$

Defined Benefit Obligation [DBO]

1. Calculate **estimated benefits** to be paid to employee post employment
 = Expected final salary p.a x Benefit % x no. of years of service

2. **Allocate benefit over period of service** = $\frac{\text{Total benefit}}{\text{no. of years of service}}$

3. Calc **Current Service Cost [CSC]** → Recognize each year @ P.V of Benefit attributed to that year [Note - Reverse discounting applies]

JE : CSC Dr [P&L-EBE]
 To DBO Cr [Liability]

4. Calc **Interest Cost** @ each yr end → to unwind CSC

JE : Interest Cost Dr [P&L-EBE] } Opening balance x discounting factor
 To DBO Cr [Liability] } of DBO

5. Calc **Actuarial gain/loss** @ each yr end → arise due to change in assumptions

JE :

Actuarial loss (↑ in DBO)	Actuarial gain (↓ in DBO)
Actuarial loss Dr [P&L-EBE] To DBO Cr [Liability]	DBO Dr [Liability] To Actuarial gain Cr [P&L-EBE]

6. Calc **Past service cost** → arise due to change in Defined benefit Plan [i.e. change in Benefit % in Plan]

JE :

Additional benefit to Emp	Reduction of benefit to emp
Past service cost Dr [P&L-EBE] To DBO Cr [Liability]	DBO Dr [Liability] To Past service cost Cr [P&L-EBE]

7. **Curtailment & Settlement** → Entity curtails benefit of employee under DBP & settles before maturity

JE : DBO Dr [Liability] → ↓ in DBO
 Loss on settlement Dr [P&L-EBE] → bal. fig
 To Bank Cr → Payment for settlement
 To Gain on settlement Cr [P&L-EBE] → bal. fig