

AS-15 EMPLOYEE BENEFITS EXPENSE...

Outsourcing may not meet the definition of employee.

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 employee except employee share based payments [ESOP]

EB paid due to:

- Formal Plan/Agreement
- legislative requirement
- Informal practices
- Pattern creating expectation among employees)

Types of Employees covered:

- All employees (full time, part time WTD, casual staff etc)
- Includes EB given to dependents (spouse, children, others)
- Payment made to emp / dependents other (legal heirs / insurance co. etc)

It should be a

contract of service & not contract for service.

→ Profession/Technical services
↳ Ltd direct/control

↓
employee obligation to obey order

Types of Employee Benefits

① Short term employee Benefits

↓
● Payable within 12m from BS date of CY

↓
eg. Salary, Wages

② Long term Benefits

↓
Payable after 12m from BS date of CY.

↓
eg. extended sabbatical leave, breaks

③ Post employment Benefits

↓
Paid on/after Retirement

↓
eg. Gratuity, Pension

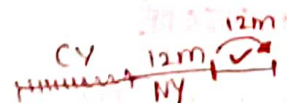
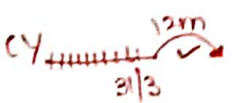
④ Terminal Benefits.

↓
Paid for Termination

↓
eg. Retrenchment, Voluntary retirement

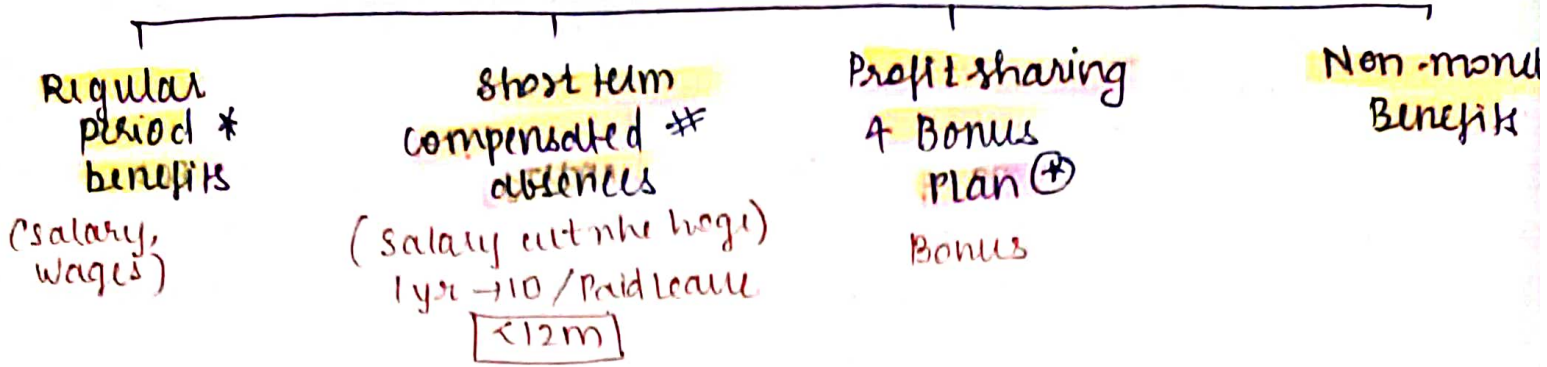
(MATCHING PRINCIPLE)

ie cost associated with employees benefit should be match with timing of service.



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

① Short term employee benefits.



* Salary/wages or Regular period benefits

Record employee benefit expense in the period in which emp renders the service.
Any difference amt b/w expense recognised & cash payments made should be treated as asset/liability as the case may be

Journal entry

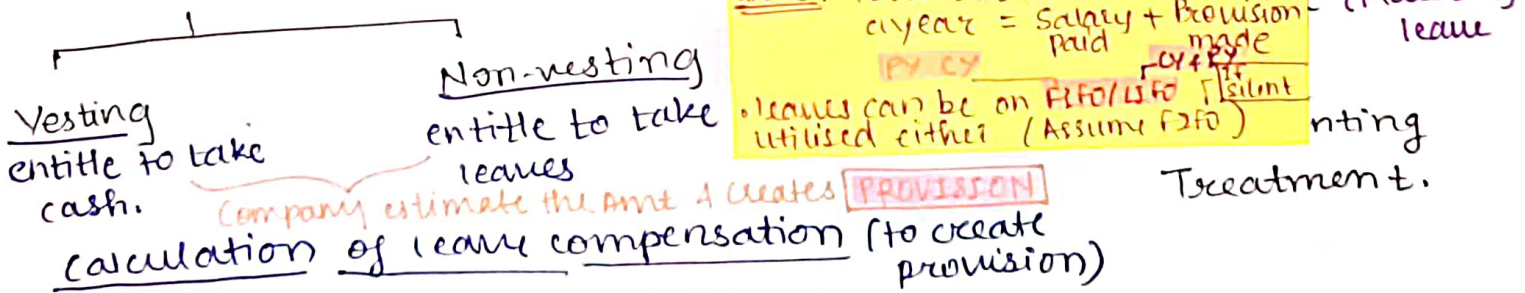
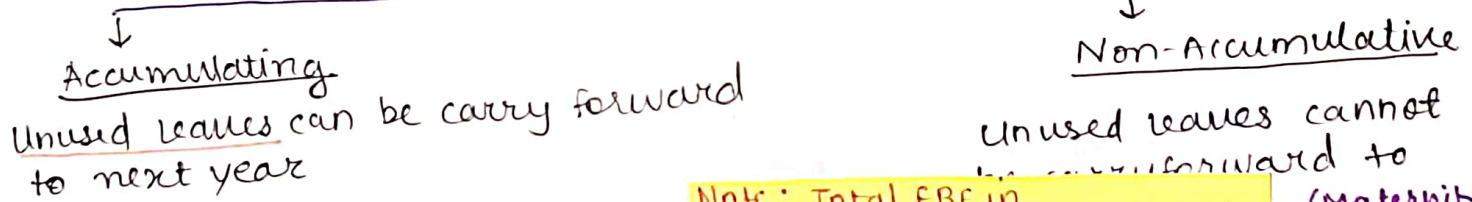
Accrued & paid EBE Dr To Bank	Accrued but not paid EBE To salary or Alc (Liab.)	Paid in Advance Prepaid salary (Asset) To Bank
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(+) Bonus / Profit sharing Plan

- Normal Bonus - Bonus per employee x No. of employees
- Profit sharing Plan - Profit earned by entity during the year x share in profit expected payout %

Short term compensated Absences

Leaves for which salary will not be deducted.



Note: Total EBE in a year = Salary paid + Provision made
Policy: leaves can be on FIFO/LIFO/First in First out (Assume FIFO)

• Vesting - Total no. of employees x Total no. of unused leaves x Salary per day

• Non-vesting - No. of emp. expected to utilize unused leaves in next year x No. of unused leaves expected to be utilise by each emp. in next year x salary per day.

③ Post employment Benefits.

Defined contribution Plan (DCP)

entity pays fixed contribution to a separate fund & will have no further obligation to pay any amount to employees

Actuarial risk & Investment risk fall on employee,

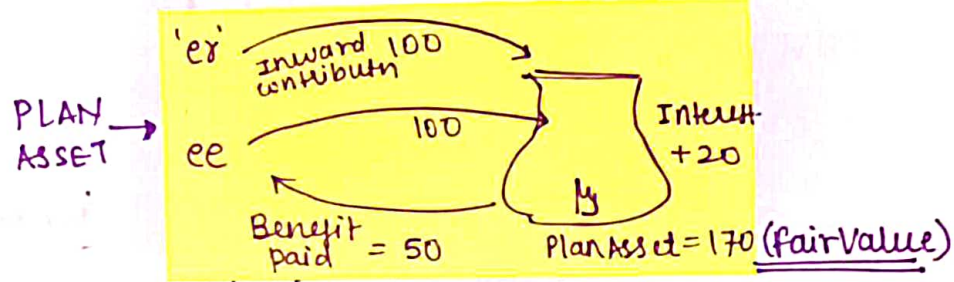
Record expense for amt contributed.
eg. Provident fund, Gratuity

Defined Benefit Plan

• Plan Asset

Defined Benefit Plans

- Plans other than DCP [entity has agreed to pay directly to employees post employment.]
- Actuarial risks & Investment risk fall on employer.
- Apply actuarial calculations to determine charge.



Plan Asset A/c	
To Balance b/d (opg.)	By Bank A/c (Benefit paid)
To Bank A/c (contribution)	By Actuarial loss (A/c)
To Actuarial Gain A/c	By Balance b/d (clg. balance)
<u>XX</u>	<u>(Fair Value)</u>
	<u>XX</u>

On specific Note

• conversion of expected return p.a. to half yearly charging

rate = $\sqrt{HR} - 1$

• Calculation of expected Return

→ 1st six month = Bal. b/d × charging rate

→ 2nd six month = [Bal b/d + 1st six month ER + contribution - Benefits paid] × charging rate.

2. Actual Return on Plan Assets.

= expected Return on Plan Asset ± Actuarial Gain/loss on P.A.

Actuarial Gain/Loss

↳ Difference b/w employer actual pension payment relative to expected payment.

It should be recognised immediately in Stat. of P/L as income or expense

Recognized in P/L A/c in same year

• Defined Benefit Obligation (DBO)

1. Calculate estimated Benefits to be paid to ee post employment
 = expected final salary p.a x Benefit x no. of years of service

2. Allocate Benefits over period by service

$$= \frac{\text{Total Benefit}}{\text{No. of years of service}}$$

CSC Year	Equal Amt of PBO	Discoun. factor
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3. Calculation current service cost (CSC) → Recognise each year @ PV of

JE = CSC Alc (P/L - EBE)
 To DBO Alc (Liability)

Benefit attributed to that year

(Note - Reverse discounting applied)

4. Cal. Interest @ each year end → to unwind CSC

Interest Year	Op. Bal	Interest cost	Current service	cls Bal.
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JE - Interest cost Alc (P/L - EBE)
 To DBO Alc (Liability)

} opg. balance x discounting rate

5. Calculation Actuarial Gain/Loss @ each year end → arise due to change in assumptions

Amt recog. as Refined Benefit Liab.
 = PV of DBO
 (-) PV of Plan Asset at B/s date
 (-) Past service cost not recog. @

Actuarial loss (P/L - EBE) To DBO (Liability)	Actuarial Gain (↓ in DBO) DBO Alc (Liability) To Actuarial Gain (P/L - EBE)
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6. Calculation Post service cost → Arise due to change in Defined Benefit Plan [re change in Benefit % in Plan]

JE Additional Benefit to emp.
 Post service cost (P/L - EBE)
 To DBO Alc (Liability)

Reductn of Benefit to emp.
 DBO (Liab)
 To Past service cost (P/L - EBE)

7. Curtailment + settlement → entity curtails benefits of employee under DBP + settle by maturity

JE :- DBO (Liab)
 loss on settlement (P/L - EBE)
 To Bank
 To gain on settlement

→ ↓ in DBO
 → Bal. fig
 → Profit on settlement

Actuarial gain
 Reduction in Gross obligation
 Unrecognised service cost
 related to past of obligation
 (xxx)
 xxx

* As states that provide services to enterprise on
 ee may provide services to enterprise on
 ↓ fulltime ↓ parttime ↓ permanent ↓ casual ↓ Temporary Basis

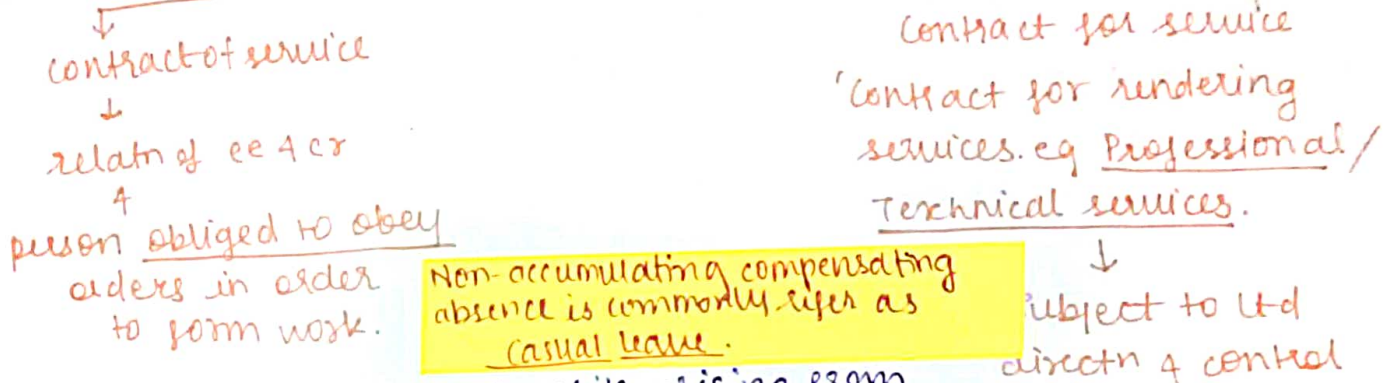
also includes
 WTD + management personnel.

- Applicable to all forms of ee-er relationships.
- No Requirement for formal ee-er relatin.

Several factors need to be considered to determine nature of relationship

○ Outsourcing contracts - not meet the definition of ee-er relationship

○ Contracts need to be careful to examine distinguish b/w



Non-accumulating compensating absence is commonly refer as casual leave.

Require to provide employee Benefits arising from Informal practices?

• Informal practices gives rise to an obligation where enterprise has no realistic alternative but to pay EB.

• The historical pattern of granting such benefits the expectatn created & impact on relationship with employees & if withdrawn in determining whether informal practice give rise to Benefit

Eg. er has a practice making lumpsum payment on occasion of festival against informal benefits to ei' → necessary to provide benefits.

Careful judgement should be applied whether an obligation has arisen or where enterprise is to provide improvements only during collective bargaining process.

If er has not set a pattern that can be projected reliably to give rise to an obligation - there is no requirement to provide benefits.

If practice establish by er that benefit granted either as part of union negotiatn or otherwise clearly established pattern (eg. cost of living adjustment, or fixed rupee increase)

Additional Benefits should be included in the measurement of BO.

- EB includes
- short term EB (wages/salary/sick leave/PS Bonus) Nonmentory
 - Post-employment Benefits (locality/Pension/PF)
 - LTBE (LT or disability)
 - Terminatn

Disclosure required for above four types of employee Benefit Separately.