AS 15 - EMPLOYEE BENEFITS

1 Applicability

All Employee Benefits Except - Share Based Payments → ESOP

2 Types of Employee Benefits

- **Short Term Employee Benefits** → Eg. Salaries, Incentives → Always Charged to P&L in the Year in which it Occurs
- **Other Long Term Employee Benefits** → Eg. Long Term Bonus Plans
- **Post Employment Employee Benefits** → Eg. Gratuity, Provident Funds
- **Terminal Benefits** → Eg. VRS Expenditure → Always Charged to P&L in the Year in which it Occurs

During the Employement → Retirement Benefits

3 Classification of Post Employment Benefit Plans & Other Long-term Employee Benefits

Defined Contribution Plans (DCP)	Defined Benefit Plans (DBP)
➲ Employer's Contribution is Fixed	➲ Employer's Contribution may not be fixed
➲ Actuarial & Investment Risk is on the Employee	➲ Agreed Benefits are Required to be Provided under DBP
➲ Actuarial Assumptions are not Required	➲ Actuarial & Investment Risk is on the Employer
➲ Entire Contribution Expense is Charged to P&L a/c	➲ Actuarial Assumptions are required
	➲ Expense is Recognised Based on "Projected Unit Credit Method"

4 Accounting for DBP

Recognise

- **DEFINED BENEFITS OBLIGATION (LIABILITY)** → Through
  a) Current Service Cost (CSC) & b) Interest Cost (IC)
  → CSC & IC both are charged to P&L
  CSC Dr. / Ic Dr. To Provision For DBO
- **PLAN ASSETS** (Invst.) → Through
  a) Contributions Made by Employer
  b) Return on above Contributions
  → Plan Asset To Bank
  → Plan Asset To Exp. Return

5 How to Calculate Following Items?

- **CSC** → Discounted Value of Estimated Annual Benefits → (Discounting to be made ~~downstream~~ upstream) For eg. From Later Year to Earlier Year
- **IC** → Calculate on Defined Benefit Liability Using Same Discounting Rate of CSC.
- **Finance Income on Plan Assets** (Exp. Return.) (Expected Return on Plan Assets)
  - If Contribution is made & Benefits are paid at Beginning of year or End of year then take Annual Rate.
  - Calculate Six Monthly Rate $\left(\sqrt{1 + \text{Annual Rate}} - 1\right)$ Six monthly Rate shall be applied on Net Contribution, if Contribution is made & Benefits are paid in Mid. of year.

6 Remeasurement

- **Defined Benefit Obligations** → DBO Shall be Measured as per the Discount Rate Revised by Actuary & Other Revised Assumptions → any Change due to above Shall be Actuarial G/L & Transfer to P&L
- **Plan Assets** → Plan Assets Shall be Measured at Fair Value at each BS Date → Any Change Due above Shall be Actuarial G/L & Transfer to P&L

Continued to next ...

AS 15 - EMPLOYEE BENEFITS

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7 Past Service Cost (PSC)

It means Change (Increase) in Defined Benefit Obligation (Liability) due to Plan Amendments made by Entity from Retrospectively

PSC is divided into two parts:

1. Amortised PSC - for benefits already vested, it is expense & transfer to P&L immediately & Increase DBO Liability A/c

PSC To DBO Liab → P&L

2. Un-Amortised PSC - for benefits not yet vested, it is to be recognised on SLM basis over the remaining Period.

USC To DBO Liab

8 Curtailment & Settlement

Defined Benefit Liability is reduced with or without Settlement due to Modification made by Employer

Gain on Curtailment shall always be transfer to P&L

DBO Liab. A/c Dr. (Liability Reduced)
To Un-amortised PSC A/c (Bal. Available)
To Bank A/c (Settlement Amt.)
To Gain on Curtailment A/c (B/f) → P&L

9 Short Term Emp. Benefits

Short Term Compensated Absences

Additional Benefits

Non-Accumulating Leaves

No additional Benefit

No Recognitian of any Provision

Accumulating Leaves

Accumulating Vested Benefits (i.e. Cash Compensation against Un-used Leaves)

Emp B. exp To Payable

Make 100% Provision for Compensation

Accumulating Unvested Benefits (Compensation through leaves aganst Un-used Leaves)

Make provision for Estimated Leaves C|F & to be used in the next Period
(Per day Salary X Estimated Leaves to be utilized)

Profit Sharing & Bonus Plan

Recognise Exp. & Not Distribution of Profits, only if :-
1) There is Legal or Constructive obligation to Pay
&
2) Reliable Estimate can be made

Provision For DBO A/c

To Bank (Benefits paid)	XXX	By Bal Bd	XXX
(B/F) To Actuarial Gain P&L	XXX	By CSC P&L	XXX
To Bal Cld	XXX	By Int. Cost P&L	XXX
		By PSC P&L	XXX
		By UAm. PSC	XXX
		By Actuarial Loss P&L	XXX

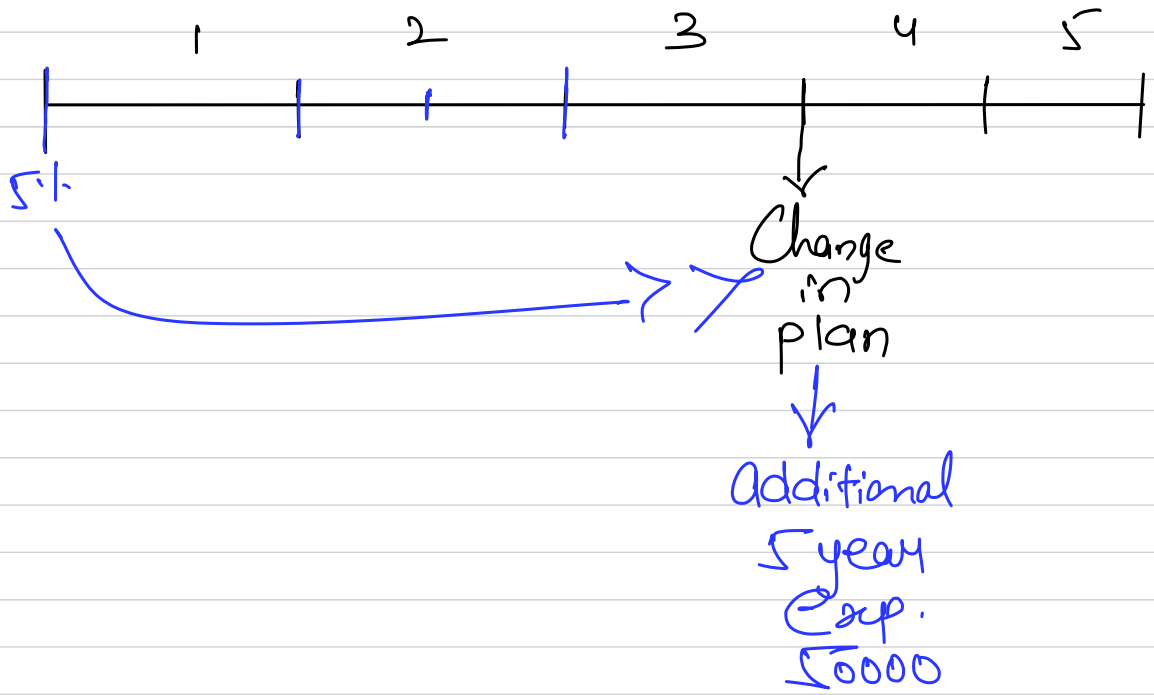
as per actuarial valuation

Plan Asset a/c

To Bal Bd	XXX	By Bank (Benefits)	XXX
To Ex. Return	XX		
To Bank (Contribution)	XXX	By Actuarial Loss P&L	XXX
To Ex Retur. (on net Contr.)	XX		
(B/F) To Actuarial Gain P&L	XXX	By Bal Cld (at Fair Value)	

Income
Actual Return
Exp Return
(+) Act. Gain on P. Ass
(-) Act. Loss on Plan Ass.

Eg:-



Step 1:- Calculate Est. Total Defined Benefit to be paid (Based on Future Salary)

Step 2:- Allocated Benefit per year

$$\frac{\text{Step 1}}{\text{No. of yrs}}$$

Step 3:- Calculate CSC by Discounting each year upstream

Step 4:- Prepare Interest Schedule

Opng	Int Cost (%)	CSC	Closg

v. any Past service cost (to the extent they are recognized);
vi. and gain or loss on settlement (curtailment);
vii. Any change in the effect of the Net Defined Benefit Asset.

12. Items to be shown in Balance sheet:

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

13. 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.

Class Example- 1 (on Define Benefit Obligation)

An Entity announced Defined Bonus plan for its 50 employees. Bonus would be payable after serving 5 years (Long Term Benefit). Bonus amount would be 8% of Last drawn Salary after 5 years for each year of service. Discount Rate = 10 % p. a. Current Avg. Salary p.a. per Employee = 6,00,000/-. Salary Inflate Rate = 7 % p.a.
Show Accounting as per As 15.

Solution :-

Defined Benefit Plan = Defined Bonus = 8% of Salary for Each year of Service.

Step - 1:

Calculate Total Defined Benefit

Current salary	6,00,000/-
Expected Salary after 5 years Per Employee	(6,00,000 × 1.07) × 1.07 × 1.07 × 1.07 = 7,86,478/ -
Estimated Defined Benefit	7,86,478 X 8% X 5 YEARS X 50 No.
	1,57,29,552

Step – 2:

Calculate Allocated Benefits per year

Allocated Benefit	1,57,29,552 ÷ 5
	31,45, 901/-

Step - 3:

Future Cost

Calculate Current Service Cost (CSC)

Year	Allocated Benefits	PVF @ 10%	CSC
1	31,45,910	0.683	21,48,657
2	31,45,910	0.751	23,62,578
3	31,45,910	0.826	25,98,523
4	31,45,910	0.909	28,59,634
5	31,45,910	1	31,45,910

accrued exp

Step - 4

Calculation of Interest Cost

	1st	2nd	3rd	4th	5th
Opening Balance	0	21,48,657	47,26,101	77,97,234	114,36,591
Int. Cost (10 %)	0	2,14,866	4,72,610	7,79,723	11,47,051
CSC recognised at the End	21,48,657	23,62,578	25,98,523	28,59,634	31,45,910
Closing Bal	21,48,657	47,26,101	77,97,234	1,14,36,591	1,57,29,552

Journal Entry			
1st Year	Current Service cost a/c Dr.	21,48,657	
	To Defined Benefit Obligation Payable (DBO) A/c		21,48,657
2nd year	Current Service Cost A/c Dr.	23,62,578 (P&L)	
	Interest Cost A/c Dr.	21,48,657 (P&L)	
	To DBO Payable A/c		25,77,444

Example 2: (on Define Benefit Obligation)

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 1 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.

SOLUTION: (Amount in Rs.)

Computation of benefits attributed to the current and prior years:

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

Computation of obligation for an employee:

Year	1	2	3	4	5
Opening Obligation	-	89	196	324	476
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

Year	1	2	3	4	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

Year	1	2	3	4	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

Example 3: (Plan Assets)

On 1.4.20X1, the fair value of plan assets is Rs.10,000. On 30.9.20X1 it paid benefits of Rs. 1,500 and received contributions of Rs. 4,500. On 31.03.20X2, fair value of plan assets is Rs.15,000 and PV of obligation was Rs. 14,972. Actuarial losses on obligation was Rs. 60 on 31.03.20X2. Find the net actuarial gain/losses on 31.03.20X2 based on the following estimates:

Interest and dividend income	9.00%
Realised and unrealized gain on plan assets	1.50%
Administration costs	(1.00%)

= 9.5% Exp. Return.

Solution

- Annual Expected Return = 9.50%
- Six Monthly Rate = Squar Root of [(1 + 0.095) – 1)] × 100 = 4.64 %

Plan Assets A/c

01/04	To Balance b/f	10,000	30/09	By Bank	1,500
30/09	To Bank a/c	4,500			

31/03	To Expected Return 10,000 x 9.5% 3,000 x 4.64%	 950 139			
31/03	To Actuarial Gain	911	31/03	By Balance c/d	15,000

Example – 4 (Plan Assets)

FY 23-24

1/4/23	Opening Balance of Plan Assets	5,00,000/-
1/4/23	Contribution to Plan Assets	1,00,000/-
1/4/23	Benefits Paid out of Plan Assets	1,50,000/-
	Expected Return	12% p.a.
	Fair Value on 31/03/24	5,20,000/-

Solution –

Plan Assets A/c

¼	To Balance b/d	5,00,000	¼ By Bank (Benefits paid)	1,50,000
¼	To Bank A/c	1,00,000		
31/3	To Expected Income (Income @ 12% on 4,50,000)	54,000		
31/3	To Actuarial Gain (P&L)	16,000	31/3 By Balance c/d	5,20,000

Actual Return for the year	Expected Return + Actuarial Gain /loss
	54,000 + 16,000
	70,000

Example – 5

Assume Same Example 4 above, with following Changes:
Date of Contribution made Benefits paid is 31/3/24. Prepare Plan Asset A/c

Solution –

Plan Asset A/c

¼	To Balance	5,00,000	31/3 By Bank (Benefits)	1,50,000
31/3	To Expected Return (12% on Opening)	60,000		
31/3	To Bank A/c	1,00,000		
31/3	To Actuarial Gain (b/f)	10,000	31/3 By Balance	5,20,000

Actual Return	60,000 + 10,000
(Expected Return + Actuarial Gain)	70,000/-

Example - 6

Assume Same Example 4 as above But Date of Contribution & Benefits paid are on 1/10. Prepare Plan Asset a/c

Expected Return	12% p.a. Annual Rate
Six Monthly Compound Rate	[(≤1+Annual rate)]-1]×100
	[(≤ 1+0.12) -1] x100
	5.83% Six monthly Compounded

Plan Asset A/c

¼	To Balance	5,00,000	31/3 By Bank (Benefits)	1,50,000
1/10	To Bank A/c	1,00,000		
31/03	To Expected Return 5,00,000 x 12% = 60,000	57,085		

(50,000) x 5.83% = (2915)			
31/3 To Actuarial Gain (b/f)	12,915	31/3 By Balance	5,20,000

Actual Return	57,085 + 12,915
(Expected Return + Actuarial Gain)	70,000/-

4.3 PAST SERVICE COST (PSC)

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

- PSC is divided into two parts:
  - (a) Amortised Past service cost - which is to be **recognized immediately** to the extent benefits are **already vested.**
  - (b) Unamortised Past Service cost – to be recognized on **straight line basis** over the remaining period until the benefits are vested.

- **Example of Past Service Costs:** due to the recent amendments in Gratuity Act, 1972 there is substantial increase in the gratuity liability of the company (i.e. from 10 lacs to 20 lacs). Such increase in liability would be regarded as Past Service Cost.

Example 7:

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 to 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 serviceRs. 1,20,000 (Average period until vesting = 3 years)

Suggest the accounting treatment.

Solution

1) Amortised PSC means additional Benefits payable to employees with more than 5 years of Service, hence 2,00,000 it is to be immediately Recognised in P&L.
2) Unmortised PSC mean additional Benefits payable to employees with Less than 5 years i.e. Unvested Benefits of Rs 1,20,000 is to recognised in next 3 years.

4.4 CURTAILMENT AND SETTLEMENT

- Curtailment or Settlement is a transaction that **eliminates all further legal or constructive obligations for part or all of the benefits provided under defined benefit plan.**
- In a simple language, if Defined Benefit Obligation plan is modified in such a way that **employees will not get benefit,** rather benefit originally planned is being reduced, it is called curtailment.
- However, settlement amount may have to be given by entity as a compensation against curtailment of benefits.
- 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 un-amortised past service cost a/c
To Bank A/c (Settlement)
To Gain on Curtailment A/c (Balancing Fig)

- **Gain on curtailment** shall be transfer to Statement of **P&L under Employee Benefit Expense.**

Example 8:

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	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.

Solution:

DBO Payable A/c Dr.100		
To Un-amortised PSC A/c		5
To Gain on Curtailment A/c (P&L A/c)		95