AS 15

Employee Benefits

Definition

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

Employee Benefits includes

Short term employment Benefit	Post Employment Benefit	Other Long term employee benefit	Termination Benefit
[eg: Wages, Salaries, Paid annual leave, Profit Sharing Bonus Plans, etc.]	[eg: Gratuity, Pension, Provident Fund, Post employment medical care, etc.]	[eg: Long-service leave, long-term disability benefits, bonuses not wholly payable within 12 months of the year end Long term sabbatical leaves, etc.]	[eg: VRS Payments]

SHORT-TERM EMPLOYMENT BENEFIT

Kab karu recognise?? Kuch help krdo naaa..

Short-term employment benefits are those employee benefits which fall due wholly within reporting twelve months after the end of the period in which the employees render the related service.

Journal entries FOR SALARY / WAGES / BONUS SHARING

Due and paid

Employee Benefit Expense A/c Dr.
To Cash / Bank

due but not paid

Due in Current Year
Employee Benefit Expenses A/c Dr.
To Employee Benefit Expenses Payable A/c

Paid in the following year
Employee Benefit Expenses Payable A/c Dr.
To Cash / Bank

Accounting for these benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or cost.

note 1 :- If the salaries are paid to employee involved in construction of PPE / Inventory.
PPE / Inventory A/c Dr
To Cash / Bank A/c
[to be Capitalised]

note 2 :- Amount will not be discounted Since amount is payable within 12 month

note 3 :- If the amount already paid excess the undiscounted amount of benefits Recognise that excess as an asset [Prepaid Expenses].

Short-term employment Benefit

- Salary / wages
- Short term Compensated Absences
- Profit sharing Bonus plan.

RECOGNITION AND MEASUREMENT

mai batata hu....

31st March, 2023 ———— 31st March 2024

Short-term employment benefits [other than termination benefits] are payable within twelve months after the end of the period in which the service is rendered.

SHORT-TERM COMPENSATED ABSENCES

Compensation given to employees for absences arising out of various for various reasons including vacations, sickness and short-term disability, etc.

Short term Compensated Absences

ACCUMULATING

Accumulating Compensated absences are those absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full.

VESTING

In this case employees are entitled to a cash payment for unused entitlement on leaving the enterprise.

[Provision shall be made for entire unused leaves]

NON- VESTING

In this case employees are not entitled to cash payment against unused entitlement on leaving the enterprise.

[Provision shall be made for benefit expected to be availed]

NON- ACCUMULATING

Non-Accumulating Compensated absences do not carry forward and are not directly linked to the services rendered by employees in the past. Therefore, an enterprise recognize no liability or expenses until the time of the absences.

EXPLANATION :-

They cannot be carried forward, they lapse in current year. If entitlement is not used in full by employee.

They do not entitle employee for a cash payment, therefore no liability or expense is recognised for the same.

↓

No Accounting treatment is required.

PROFIT SHARING BONUS PLAN

This should be recognized as an expense only on fulfilment of following **two conditions:-**

- Entity **has present obligation** to make such payment as a result of past events, and
- **Reliable estimate** of the obligation can be made
- A reliable estimate of the obligation can be made when, and only when;
  - ✓ Formal terms of the plan **contains the formula**
  - ✓ The determined amount to be paid is **approved**
  - ✓ There exists **past practice** which is clear evidence of the obligation.

POST EMPLOYMENT BENEFIT

Post-employment benefits are employees benefits (other than termination benefits) which are payable after the completion of employment.

Post - employment benefits includes
- retirement benefits eg., gratuity and pension; and
- other benefits, eg., post employment life insurance and post employment medical care.

Post-employment benefits plans are formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees.

DEFINED CONTRIBUTION PLAN

Enterprise obligation is limited to the amount that it agrees to contribute to the funds.

⇩

Actuarial risk and investment risk falls on the employee and not on employer

DEFINED BENEFIT PLAN

Enterprise is under obligation to provide agreed benefits to current and former employees

⇩

Actuarial risk and Investment Risk in substance, falls on employer. Expenses are recorded based on projected unit credit method.

THESE PLAN CAN BE MAINTAINED

- MULTI EMPLOYER PLAN
- STATE PLAN
- INSURED PLAN

ACTUARIAL RISK :- It is the risk that liability amount for entity will be less or more.

INVESTMENT RISK :- Risk that investment amount would not be sufficient to pay the liability.

DEFINED CONTRIBUTION PLAN

When it is accrued

Salary X % Contribution	
Defined Contribution Expenses A/c [Employee Benefit Expenses]	Dr.
To Defined Contribution Expenses Payable A/c [Current Liability]	

When it is paid

Salary X % Contribution	
Defined Contribution Expenses Payable A/c [Current Liability]	Dr.
To Bank A/c (Being contribution made)	

Note: When Contribution payable **do not fall due within 12 months** from the end of reporting period it should be **discounted** using specified discounting rate.

DEFINED BENEFIT PLAN

Accounting of Defined Benefit Plan is complex, because actuarial assumptions are used to measure the obligation and expenses and actuarial gain / loss may also arise.

1. CURRENT SERVICE COST

Current Service Cost is increase in Present Value of Defined Benefit Obligation **resulting from employee service in Current Period.**

Journal Entry

Current Service Cost A/c	Dr.
To Defined Benefit Obligation A/c	

2. INTEREST COST

Interest cost is increase during the period in present value of defined benefit obligation which arises **because the benefits are one period closure to settlement.**

[Discounting Rate X Opening Present value of defined benefit obligation]

Journal Entry

Interest Cost A/c	Dr.
To Defined Benefit Obligation A/c	

3. DEFINED BENEFIT OBLIGATION

These are post employment benefit under which entity has obligation to pay agreed benefit directly to employee post employment in any case.

Expected Final Salary p.a. X No. of years of service X Benefit Percentage = Total Benefit Payable

Benefits attributable to each years of service.

= Total benefit payable / No. of years of service

4. ACTUARIAL GAIN / LOSS ON DEFINED BENEFIT OBLIGATION

Any change in financial or demographic assumption or experience variance like estimate of employee final salary, No. of years of service, Discount Rate, etc.

Journal Entry

Actuarial Gain [Decrease in Defined Benefit Obligation]	
Defined Benefit Obligation A/c	Dr.
To Actuarial Gain A/c	

Actuarial Loss [Increase in Defined Benefit Obligation]	
Actuarial Loss A/c	Dr.
To Defined Benefit Obligation A/c	

5. PAST SERVICE COST

Past service cost **change in the PV** of Defined Benefit Obligation for employee service in **prior periods** resulting in current period from the **introduction of or changes on to post employment benefit.**

It **may be either positive [when benefits are improved]** or **negative [when benefits are reduced].**

Any amendment made in Defined Benefit plan by changing benefit "%" of plan. [In last example of entity changes benefit % from 25% to 30%]

Journal Entry

Additional Benefit to Employee	
Past Service Cost A/c	Dr.
To Defined Benefit Obligation A/c	

Reduction in Benefit to Employee	
Defined Benefit Obligation A/c	Dr.
To Past Service Cost A/c	

6. PLAN ASSET

Comprises:

a) Assets held by long term employee benefit fund and
b) Qualifying insurance policies.

The F.V. of any plan asset is deducted in determining the amount of Defined Benefit obligation to be recognized in Balance Sheet

Balance Sheet disclosure amount	
PV of defined benefit obligation @ Balance Sheet date	XXX
(-) Past service cost not recognised	(XXX)
F.V. of Plan assets	(XXX)
	XXX

Journal Entry

• **Contribution to Plan Asset**	
Plan Asset A/c	Dr.
To Bank A/c (Being Investment made in Plan Assets)	
• **Benefit paid on Realisation**	
Bank A/c	Dr.
To Plan Asset (Being Sales proceeds realised)	
• **Expected return on Plan Assets**	
Plan assets A/c (Closing Balance of Plan Asset X Interest Rate)	Dr.
To Expected Return on Plan assets (Being expected return on plan assets accured)	

7. ACTUARIAL GAIN / LOSS ON PLAN ASSETS

Difference between the **expected** return on plan asset and **actual** return on plan assets.

This will be computed based on FV of Plan Asset @ year end.

• **Actuarial Gain**	
Plan Assets A/c	Dr.
To Actuarial Gain A/c	
• **Actuarial Loss**	
Actuarial Loss A/c	Dr.
To Plan Asset	

8. CURTAILMENT AND SETTLEMENT

1. A Curtailment occurs when
   - Entity has present obligation arising from past events **to make reduction in no. of employee**
   - Amends the terms of plan such that future service of current employee will no longer qualify for benefits.
2. A settlement occurs when an enterprise enters into a transaction that **eliminates all future obligation.**

Defined Benefit Obligation A/c [Decrease in Defined Benefit Obligation]	Dr.
Loss of settlement [Balance Figure]	Dr.
To Bank [Payment Made]	
To Gain on settlement [Balance Figure]	

OTHER LONG TERM EMPLOYEE BENEFITS

Other long term employee benefits are employee benefits **(other than post employee termination benefits)** which do not fall within **12 months after the end of reporting period.**

[Accounting same as Post Employee Benefits]

TERMINATION BENEFITS

- Entities decision to terminate employee or
- Employees decision to accept voluntary redundancy in exchange of those benefits. [Eg:- VRS Payment]
- Entity to recognise it as an exp. or liability only when
  - ✓ A detailed formal plan is duly **approved** and
  - ✓ A **reliable estimate** can be made of the obligation

If Payable

Within 12 months from end of B/S Date ⇩ Recognise **undiscounted** amount as a liability

After 12 months from B/S Date ⇩ Recognise the **discounted** amount as liability

Notes for student...

AS 15 – EMPLOYEE BENEFITS

QUESTIONS							
No.	QUESTIONS	PAGE NO.	DATE	R1	R2	R3	REMARK
1	ICAI – ILLU. 1						
2	ICAI – ILLU. 2						
3	ICAI – ILLU. 3						
4	ICAI – ILLU. 4						
5	ICAI – ILLU. 5						
6	ICAI – ILLU. 6						
7	ICAI – ILLU. 7						
8	ICAI – ILLU. 8						
9	ICAI – FINAL (IND AS 19) – ILLU.1						
10	ICAI – FINAL (IND AS 19) – ILLU.2						
11	ICAI – FINAL (IND AS 19) – ILLU.3						
12	ICAI – FINAL (IND AS 19) – ILLU.4						
13	ICAI – FINAL (IND AS 19) – ILLU.5						
14	ICAI – FINAL (IND AS 19) – ILLU.8						
TEST IN TIME PASS IN TIME							
1	ICAI – P.Q. 7						
2	ICAI – P.Q. 8						

1. ICAI - ILLUSTRATION 1

What are the kinds of employees covered in the revised AS 15 and whether a formal employer employee relationship is necessary or not, for benefits to be covered under the Standard?

SOLUTION

As per **AS 15 – "EMPLOYEE BENEFITS"**, this Standard does **not define** the term **"employee"**. Paragraph 6 of the Standard states that 'an employee may provide services to an enterprise on a full time, part time, permanent, casual or temporary basis and the term would also **include the whole-time directors** and other management personnel. The Standard is applicable to all forms of employer employee relationships. There is **no requirement** for a **formal employer employee relationship**. Several factors need to be considered to determine the nature of relationship.

Generally, 'outsourcing contracts' may not meet the definition of employer -employee relationship. However, such contracts need to be carefully examined to **distinguish** between a **"contract of service"** and a **"contract for services"**. A 'contract for services' implies a contract for rendering services, e.g., professional or technical services which is subject to limited direction and control whereas a 'contract of service' implies a relationship of an employer and employee, and the person is obliged to obey orders in the work to be performed and as to its mode and manner of performance.

2. ICAI - ILLUSTRATION 2

Whether an enterprise is required to provide for employee benefits arising from informal practices?

SOLUTION

AS 15 – "EMPLOYEE BENEFITS", Paragraph 3(c) of the Standard defines employee benefits to include those informal practices that give rise to an **obligation** where the enterprise has **no realistic alternative** but to pay employee benefits. The historical pattern of granting such benefits, the expectation created and the **impact on the relationship** with employees in the event such benefit is withdrawn **should be considered** in determining whether the informal practice gives rise to a benefit covered by the Standard. For example, where an employer has a practice of making a lumpsum payment on occasion of a festival or regularly grants advances against informal benefits to employees it would be necessary to provide for such benefits.

Careful judgement should be applied in assessing whether an obligation has arisen particularly in instances where an enterprise's practice is to provide improvements only during the collective bargaining process and not during any informal process. If the employer has not set a pattern of benefits that can be projected reliably to give rise to an obligation there is **no requirement to provide for the benefits.**

However, if the practice established by an employer was that of a consistent benefit granted either as part of union negotiations or otherwise that clearly established a pattern (e.g., a cost of living adjustment or fixed rupee increase), it could be concluded that an obligation exists and that those **additional benefits should be included in the measurement of the benefit obligation.**

3. ICAI - ILLUSTRATION 3

Entity XY is required to pay salary of ₹ 2 crore for the year 20X1-X2. It actually paid a salary of ₹ 1.90 crore up to 31st March 20X2, and balance in April 20X2. Determine the actual costs to be recognized in the year 20X1-X2 and any amounts to be shown through balance sheet.

SOLUTION

Total expense for the year (20X1-X2)	₹ 2 crore
Amount to be shown under liability (unpaid)	₹ 2 crore – 1.90 ₹crore
	= ₹ 10 lakhs

4. ICAI - ILLUSTRATION 4

Whether an entitlement to earned leave which can be carried forward to future periods is a short -term employee benefit or a long-term employee benefit.

SOLUTION

AS 15 – "EMPLOYEE BENEFITS", Paragraph 7.2 of the Standard defines '**Short-term'** benefits as employee benefits (other than termination benefits) which fall due wholly **within twelve months** after the end of the period in which the employees render the related service. Paragraph 8(b) of the Standard illustrates the term 'Short -term benefits' to include "short term **compensated absences** (such as paid annual leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service". Paragraph 7.2 of the Standard uses "**falls due"** as the basis, paragraph 8(b) of the Standard uses "expected to occur" as the basis to illustrate classification of short term compensated absences. A reading of paragraph 8(b) together with paragraph 7.2 would imply that the classification of short -term compensated absences should be only when absences have "fallen due" and are also **"expected to occur"**. In other words, where employees are entitled to earned leave which can be carried forward to future periods, the benefit would be a 'short-term benefit' provided the employee is entitled to **either encash or utilise** the benefit during the twelve months after the end of the period when the employee became entitled to the leave and is also expected to utilise the leave.

Where there are restrictions on encashment and/or availment, clearly the compensated absence has not fallen due and the benefit of compensated absences is more likely to be a **long-term** benefit. For example, where an employee has 100 days of earned leave which he is entitled to an unlimited carry forward, but the rules of the enterprise allow him to encash/utilise only 30 days during the next twelve months, the benefit would be considered as a 'long-term' benefit. In some situations, where there is no restriction but the **absence is not expected** to wholly occur in the **next twelve months**, the benefit should be considered as 'long-term'. For example, where an employee has 400 days carry forward earned leave and the past pattern indicates that the employees are unlikely to avail / encash the entire carry forward during the next twelve months, the benefit would not be 'short-term'.

Whilst it is necessary to consider the earned leave which "falls due", the pattern of actual utilisation/encashment by employees, although reflective of the behavioural pattern of employees, does determine the status of the benefit, i.e., whether 'short-term' or 'long-term'. The **value of short-term benefits** should be **determined without discounting** and if the benefit is determined as **long-term**, it would be **recognised and measured as "Other long-term benefits"** in accordance with paragraph 129 of the Standard.

The categorisation in 'short-term' or 'long-term' employee benefits should be done on the basis of the **overall behavioural pattern** of all the employees of the enterprise and not on individual basis.

5. ICAI - ILLUSTRATION 5

In case an enterprise allows unutilised employee benefits, e.g., medical care, leave travel, etc., to be carried forward, whether it is required to recognise a provision in respect of carried forward benefits.

SOLUTION

AS 15 – "EMPLOYEE BENEFITS", A provision should be **recognised for all benefits** (conditional or unconditional) which an employee becomes entitled to as a result of rendering of the service and should be recorded as **part of the cost** of service rendered during the period in which the service was rendered which resulted the entitlement. In estimating the cost of such benefit the **probability** of the employee availing such benefit **should be considered.**

6. ICAI - ILLUSTRATION 6

Omega Limited belongs to the engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

SOLUTION

According to AS 15 (Revised 2005) 'Employee Benefits', **actuarial gains and losses** should be **recognized immediately** in the statement of profit and loss as income or expense. Therefore, surplus amount of ₹ 6 lakhs is required to be **credited to the profit and loss** statement of the current year.

7. ICAI - ILLUSTRATION 7

As on 1st April, 20X1 the fair value of plan assets was ₹ 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 20X1 the plan paid out benefits of ₹ 19,000 and received inward contributions of ₹ 49,000. On 31st March, 20X2 the fair value of plan assets was₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,47,920. Actuarial losses on the obligations for the year 20X1-20X2 were ₹ 600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices.

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	(1.00)
Expected Rate of Return	10.25

You are required to find the expected and actual returns on plan assets.

SOLUTION

Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 1,00,000 held for 12 months at 10.25%		10,250
Return on ₹ 30,000 (49,000-19,000) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		1500
Expected return on plan assets for 20X1-20X2		11,750
Fair value of plan assets as on 31 March, 20X2		1,50,000
Less: Fair value of plan assets as on 1 April,20X1	1,00,000	
Contributions received	49,000	(1,49,000)
Add: Benefits paid		19,000
Actual return on plan assets		**20,000**

Alternatively, the above question may be solved without giving compound effect to rate of return.

8. ICAI - ILLUSTRATION 8

Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹ 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

a) Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.
b) The fair value of plan assets on the date is estimated at ₹ 5,100.
c) The unamortized past service cost is ₹ 180.
d) Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation.

SOLUTION

Gain from curtailment is estimated as under:

	₹
Reduction in gross obligation	600
Less: Proportion of unamortised past service cost	(18)
Gain from curtailment	582

The liability to be recognised after curtailment in the balance sheet is estimated as under:

	₹
Reduced gross obligation (90% of ₹ 6,000)	5,400
Less: Fair value of plan assets	(5100)
	300
Less: Unamortised past service cost (90% of ₹ 180)	(162)
Liability to be recognised in the balance sheet	**138**

9. ICAI – FINAL (IND AS 19) – ILLU.1

Vested Accumulating Benefits

Mr. Rajan is working for Infotech Ltd. Consider the following particulars:

Annual salary of Mr. Rajan = ₹ 30,00,000

Total working days in 20X0-20X1 = 300 days

Leaves allowed in 20X0-20X1 as per company policy = 10 days

Leaves utilized by Mr. Rajan in 20X0-20X1 = 8 days

The unutilized leaves are settled by way of payment and accordingly, carry forward of such leaves to the subsequent period is not allowed.

Compute the total employee benefit expense for Infotech Ltd. in respect of 20X0-20X1.

SOLUTION

Mr Rajan is entitled to a salary of ₹ 30,00,000 for 300 total working days.

Thus, per day salary works out to ₹ 30,00,000 ÷ 300 days = ₹ 10,000 per day

In the year 20X0-20X1, Mr. Rajan availed 8 out of 10 leaves allowed by the company.

Accordingly, leaves unutilized = 10 – 8 = 2 days

In line with the company policy, Infotech Ltd. will pay Mr. Rajan for the unutilized leave.

Thus, total expense for 20X0-20X1 = ₹ 30,00,000 + (2 days unutilized leaves x ₹ 10,000 per day) = ₹ 30,20,000.

10. ICAI – FINAL (IND AS 19) – ILLU.2

Non-Vested Accumulating Benefits

Mr. Niranjan is working for Infotech Ltd. Consider the following particulars:

	Year 20X0-20X1	Year 20X1-20X2
Annual salary	₹ 30,00,000	₹ 30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 3 days of 20X0-20X1 in 20X1-20X2.

Infotech Ltd. contends that it will record ₹ 30,00,000 as employee benefits expense in each of the years 20X0-20X1 and 20X1-20X2, stating that the leaves will, in any case, be utilized by 20X1-20X2.

Comment on the accounting treatment proposed to be followed by Infotech Ltd. Also pass journal entries for both the years.

SOLUTION

	Year 20X0-20X1	Year 20X1-20X2
Annual Salary	₹ 30,00,000	₹ 30,00,000
No. of working days (A)	300 days	300 days
Leaves Allowed	10 days	10 days
Leaves Taken (B)	7 days	13 days
Therefore, number of days worked (A – B)	293 days	287 days
Expense proposed to be recognized by Infotech Ltd.	₹ 30,00,000	₹ 30,00,000

Based on the evaluation above, Mr. Niranjan has worked for 6 days more (293 days – 287 days) in 20X0-20X1 as compared to 20X1-20X2.

Since he has worked more in 20X0-20X1 as compared to 20X1-20X2, the accrual concept requires that the expenditure to be recognized in 20X0-20X1 should be more as compared to 20X1-20X2.

Thus, if Infotech Ltd. recognizes the same expenditure of ₹ 30,00,000 for each year, it would be in violation of the accrual concept.

The expenditure to be recognized will be as under:

	Year 20X0-20X1	Year 20X1-20X2
Annual salary (A)	₹ 30,00,000	₹ 30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	₹ 10,000 per day	₹ 10,000 per day
No. of days worked (from above)	293 days	287 days
Expense to be recognised:	₹ 30,30,000	

In 20X0-20X1: ₹ 30,00,000 + [₹ 10,000 per day x 3 days (leaves unutilized expected to be utilized subsequently)]		
In 20X1-20X2: ₹ 30,00,000 – [₹ 10,000 per day – 3 days (excess leave utilized in 20X1-20X2)]		₹ 29,70,000

Journal Entry for 20X0 – 20X1

No.	Particulars		LF	Dr.	Cr.
	Employee Benefits Expense Account	Dr.		30,30,000	
	To Bank Account				30,00,000
	To Provision for Leave Encashment				30,000

Journal Entry for 20X1 – 20X2

No.	Particulars		LF	Dr.	Cr.
	Employee Benefits Expense Account	Dr.		29,70,000	
	Provision for Leave Encashment Account	Dr.		30,000	
	To Bank Account				30,00,000

II. ICAI – FINAL (IND AS 19) – ILLU.3

Non-Vested Accumulating Benefits

Assume same information as in Illustration 2.

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 2 days of 20X0-20X1 subsequently.

However, in 20X1-20X2, Mr. Niranjan availed in actual all 3 days of brought forward leave.

Compute the expense to be recognised in 20X0-20X1 and 20X1-20X2. Also pass journal entries for both the years.

SOLUTION

The expenditure to be recognized will be as under:

	Year 20X0-20X1	Year 20X1-20X2
Annual salary (A)	₹ 30,00,000	₹ 30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	₹ 10,000 per day	₹ 10,000 per day

No. of days worked (from above)	293 days	287 days
Expense to be recognised: In 20X0-20X1: ₹ 30,00,000 + [₹ 10,000 per day x 2 days (leaves unutilized expected to be utilized subsequently)]	₹ 30,20,000	
In 20X1-20X2: ₹ 30,00,000 – [₹ 10,000 per day x 3 days (excess leave utilized in 20X1- 20X2)] + ₹ 10,000 (additional expense due to change in accounting estimate)		₹ 29,80,000

The additional ₹ 10,000 booked as an expense in 20X1-20X2 represents a change in accounting estimate (i.e. as against the entity's estimation that 2 days of unutilized leave would be utilized subsequently, actually 3 days were utilized subsequently), for which a prospective effect needs to be given, in line with Para 36 of Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Journal Entry for 20X0 – 20X1

No.	Particulars		LF	Dr.	Cr.
	Employee Benefits Expense Account	Dr.		30,20,000	
	To Bank Account				30,00,000
	To Provision for Leave Encashment				20,000

Journal Entry for 20X1 – 20X2

No.	Particulars		LF	Dr.	Cr.
	Employee Benefits Expense Account	Dr.		29,80,000	
	Provision for Leave Encashment Account	Dr.		20,000	
	To Bank Account				30,00,000

12. ICAI – FINAL (IND AS 19) – ILLU.4

Sunderam Pvt. Ltd. has a headcount of 100 employees in 20X0-20X1. As per the employee policy, the employees are entitled to:

- 30 casual leaves out of which 10 casual leaves may be carried forward to the next year; and
- 10 sick leaves out of which 2 sick leaves may be carried forward as paid leave.

At 31st March, 20X1, the average unused entitlement is 5 days per employee for casual leaves and 1 day per employee for sick leave. On an average, it is found that the number of such employees who would be claiming casual leaves would be 30 and 10 employees who would claim sick leaves. Compute the liability to be recognised in respect of sick leaves and casual leaves by the entity at the end of the financial year 20X0-20X1.

SOLUTION

Type of leave (A)	Leave Entitlement (B)	Leaves c/f permissible (C)	Average leaves Unutilized (D)	No. of Employees (E)	Liability (F = D x E)
Casual Leave	30 days	10 days	5 days	30	150 days salary
Sick Leave	10 days	2 days	1 day	10	10 days salary

The entity will recognise liability in the books equal to 150 (30 x 5) days of paid casual leaves and 10 (10 x 1) days of paid sick leaves.

13. ICAI – FINAL (IND AS 19) – ILLU.5

An entity has 100 employees, who are each entitled to ten working days of paid sick leave for each year. Unused sick leave may be carried forward for one financial 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 31st March 20X1, the average unused entitlement is two days per employee. Based on past experience, the management expects that only 20% of the employees will use 1 day from their carried forward leave. Salary per day is 2,500.

Compute the expenses in respect of the short-term compensated absences, if they are assumed to be (a) vested short-term compensated absences, and (b) non-vested short term compensated absences.

SOLUTION

Vested short-term compensated absences:

Employee Benefit Expense = 100 Employees x 2 Days x ₹ 2,500 = ₹ 5,00,000

Non-vested short-term compensated absences:

Employee Benefit Expense = 100 Employees x 20% x 1 Day x 2,500 = ₹ 50,000

14. ICAI – FINAL (IND AS 19) – ILLU.8

Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates as observed during past 10 years represents 6% per annum. Acer provides the following benefits to all its employees:

Annual bonus - during past 10 years.

Acer paid bonus to all employees who were in service during the entire financial year.

Bonus was paid in June following the financial year-end. Amount of bonus for 20X1-20X2 paid in June 20X2 represented ₹ 1,25,000 per employee. Acer Ltd. used to increase amount of bonus based on official inflation rate which is 8.5% for 20X2-20X3, although there was no legal obligation to increase the bonus by such inflation rate.

Determine how would Acer Ltd. recognize liabilities and expenses for these employee benefits as on 31st March, 20X3. P ass the journal entry to show the accounting treatment.

SOLUTION

Particulars	Amount ( )
Bonus paid for 20X1-20X2	1,25,000 per employee
Bonus for 20X2-20X3 - increased by inflation of 8.5%: [1,25,000 x (100% + 8.5%)]	1,35,625 per employee
No. of employees in staff during the whole year [350 x (100-6%)]	329 employees
Provision for Bonus for 20X2-20X3	**4,46,20,625**

Accounting Treatment:

No.	Particulars	LF	Dr.	Cr.
	Provision for Bonus for 20X2-20X3			
	Employee Benefits Expense Account Dr. To Provision for Bonus 20X2-20X3		4,46,20,625	 4,46,20,625

Note:

It is given that the company is under no legal obligation to increase the bonus by the official inflation rate. However, the company has been increasing the bonus by the inflation rate over the past years. This has given rise to a constructive obligation for Acer Ltd. Informal practices, such as these, give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. Accordingly, provision is made for the amount considering the inflation rate.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. ICAI – P.Q. 7

A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively, employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

i. Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.

ii. Since it is not related to the length of service of the employees, it is accounted for on claim basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer.

2. ICAI – P.Q. 8

The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.20X2 calculate the actual return on plan assets:

Benefits paid	2,00,000
Employer contribution	2,80,000
Fair market value of plan assets on 31.03.20X2	11,40,000
Fair market value of plan assets as on 31.03.20X1	8,00,000

MCQs

1. Gratuity and Pension would be examples of:
   a) Short-term employee benefits
   b) Long-term employee benefits
   c) Post-employment benefits.
   d) None of the above.

2. Non-accumulating compensating absence is commonly referred to as:
   a) Earned Leave
   b) Sick Leave
   c) Casual leave
   d) All of the above

3. The plans that are established by legislation to cover all enterprises and are operated by Governments include:
   a) Multi-Employer plans
   b) State plans
   c) Insured Benefits
   d) Employee benefit plan

4. Best estimates of the variable to determine the eventual cost of post-employment benefits is referred to as:
   a) Employer's contribution
   b) Actuarial assumptions
   c) Cost to Company
   d) Employee's contribution

5. Actuarial gains / losses should be:
   a) Recognised through reserves
   b) Charged over the expected life of employees
   c) Charged immediately to Profit and Loss Statement
   d) Do not charged to Profit and Loss Statement

Answers									
1.	(c)	2.	(c)	3.	(b)	4.	(b)	5.	(c)