CHAPTER 6

IND AS ON LIABILITIES OF THE FINANCIAL STATEMENTS



UNIT 1: INDIAN ACCOUNTING STANDARD 19: EMPLOYEE BENEFITS

LEARNING OUTCOMES

After studying this unit, you will be able to:

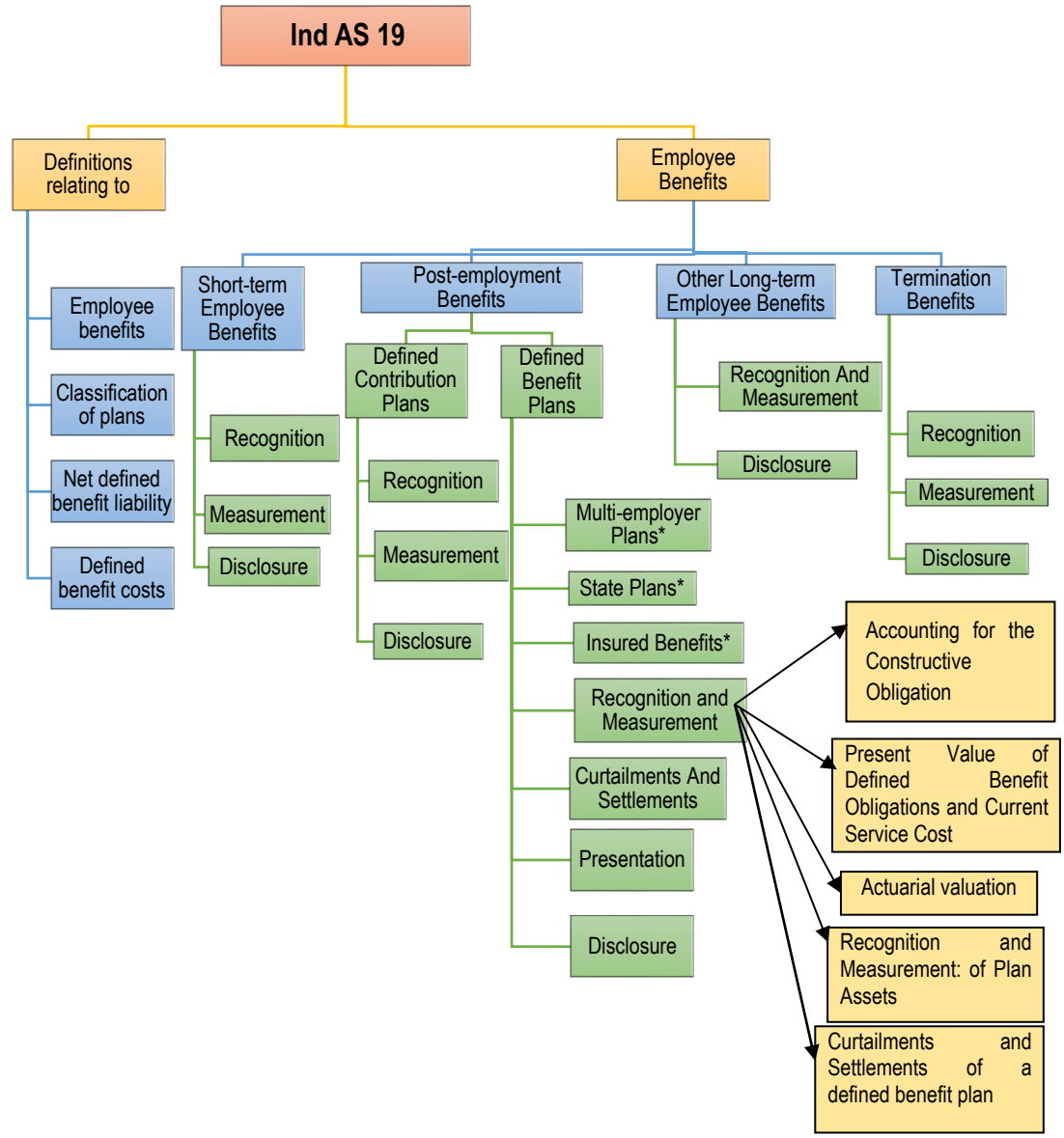
- State the objective and scope of Ind AS 19
- Define the terms relating to employee benefits, classification of plans, net defined benefit liability (asset) and defined benefit cost
- Examine the four categories of employee benefits (short-term, post-employment, other long- term and termination benefits)
- Recognise and measure all short term employee benefits, short term paid absences and account for profit sharing and bonus plans
- Distinguish between defined contribution plans and defined benefit plans
- Account for multiemployer plans, state plans and insured benefits
- Recognise and measure defined benefit plans that share risks between entities under common control
- Recognise, measure and disclose defined contribution plans

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- Account for the constructive obligation plans under defined benefit plan
- Apply actuarial valuations in recognition and measurement of defined benefit plans
- Remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions
- Determine past service cost, or a gain or loss on settlement,
- Recognise the components of defined benefit cost
- Present and disclose employee benefits in the financial statements as per Ind AS 19

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UNIT OVERVIEW



***Note:** These plans may also be considered as Defined Contribution Plans.

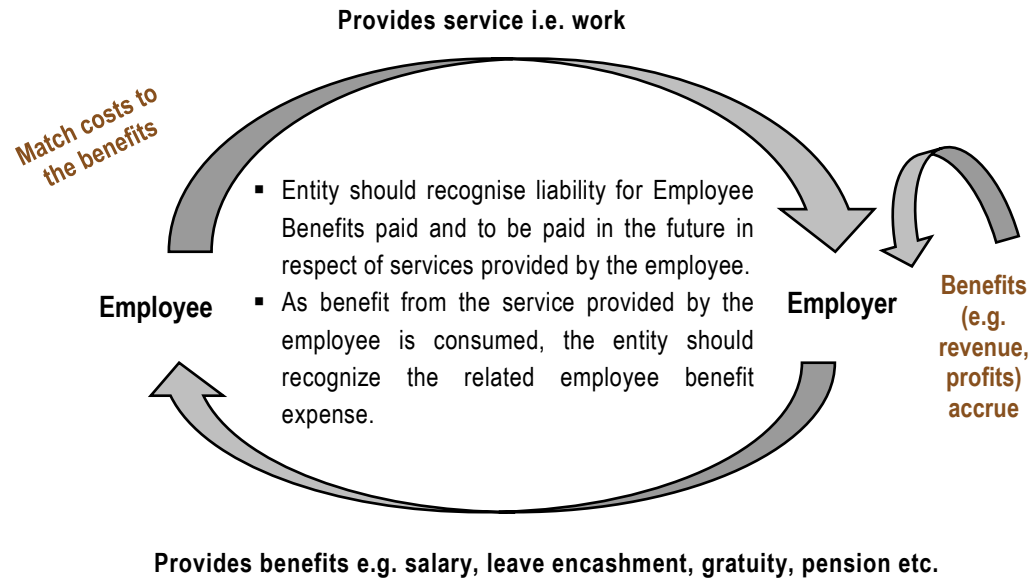
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1.1 OBJECTIVE OF IND AS 19

- The objective of this standard is to prescribe the accounting and disclosure for employee benefits.
- Ind AS 19 requires an entity to recognise:
  - (a) a liability for the services received from an employee; and
  - (b) an expense for consumption of economic benefits arising from the service provided by an employee in exchange for employee benefits.

Financial statements are prepared on the accrual basis of accounting. Under this basis, the **effects** of transactions and other events are recognised **when they occur** (and not when cash or its equivalent is received or paid) and they are **recorded** in the accounting records and reported in the financial statements of the **periods to which they relate**. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future.

When employees provide services to their employer during a period, their services lead to generation of benefits (revenues or profits or increased efficiency), directly or indirectly, for their employers for that period. The underlying assumption of accrual requires that for the benefit earned in a particular period, the costs incurred in earning that benefit need to be recognised entirely. Adherence to this requirement of the framework is what is addressed by Ind AS 19.



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1.2 SCOPE

The concept of 'Employee Benefits' has evolved over the years to encompass more than just the salaries, wages and social welfare contributions. The companies of today – established or start-ups – provide a host of benefits to its employees including, but not limited to, Employees' Stock Option Plans, jubilee bonuses, long-term disability benefits etc. In fact, companies like Google even provide unusual benefits such as 'death benefits', which involve paying the deceased's spouse or domestic partner 50% of their salary for 10 years after death of the employee.

- This Standard shall be applied by an employer in **accounting for all employee benefits** except those to which Ind AS 102, *Share-based Payment*, is applicable (e.g. Employees Stock Option Plans).
- This Standard does not deal with reporting by employee benefit plans.
- Employee benefits to which this Standard applies include those provided
  - under formal plans/agreements between an entity and its individual employees/group of employees/their representatives,
  - as required by law or as required by any type of industry arrangements whereby an entity is required to contribute to any nation/state/industry or other multi-employer plans; or
  - by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

    Example of a constructive obligation - Where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

1.3 EMPLOYEE BENEFITS

Employee benefits include:

(i) short employee benefits,

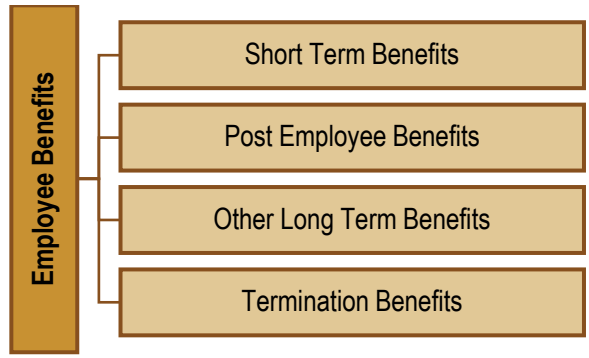
(ii) post-employment benefits,

(iii) other long term employee benefits and

(iv) termination benefits.

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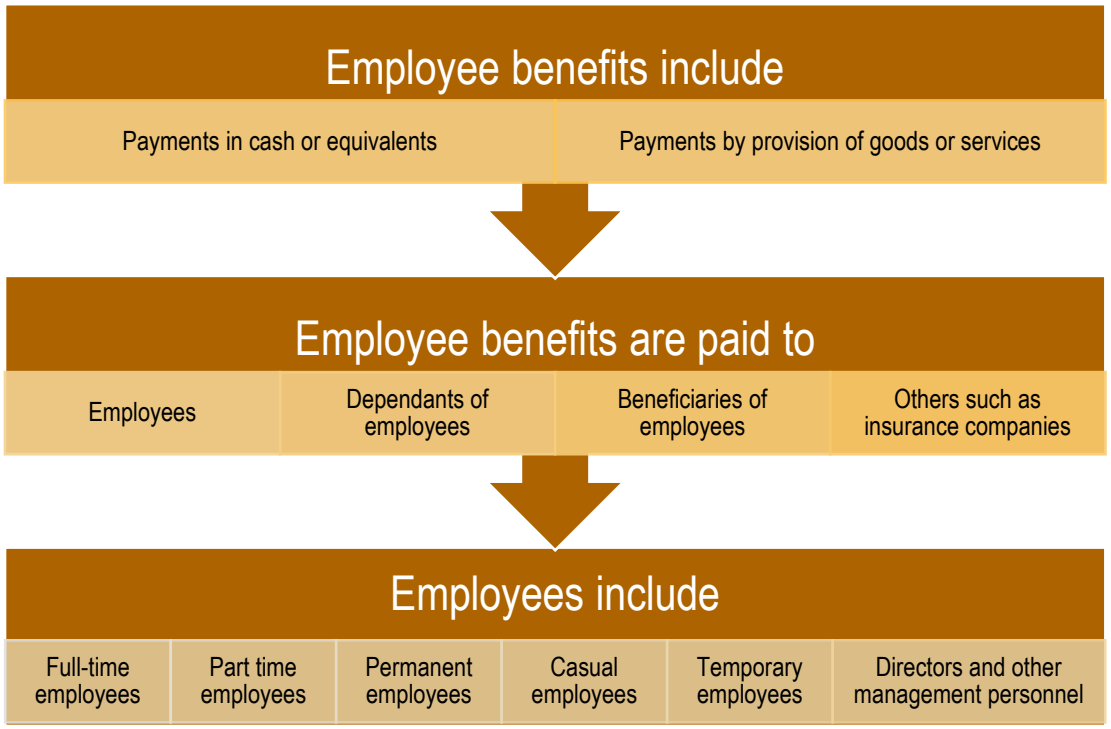
All these categories have different characteristics and hence the Standard has specified separate accounting requirements for each such category.



- Employee benefits include benefits provided either to
  - employees; or
  - their dependants; or
  - their beneficiaries.
- Employee benefits may be settled by payments (or the provision of goods or services) made either directly
  - directly to the employees; or
  - to their spouses; or
  - to their children; or
  - to their other dependants; or
  - others, such as insurance companies.
- An employee may provide services to an entity on a
  - full-time; or
  - part-time; or
  - permanent; or
  - casual; or
  - temporary basis.

Note: For the purpose of this Standard, employees include directors and other management personnel.

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1.4 DEFINITIONS

1.4.1 Definitions of employee benefits

1. ***Employee Benefits:*** All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

2. ***Short-term Employee Benefits:*** Employee benefits (other than termination benefits) that are expected to be settled wholly **before twelve months** after the end of the annual reporting period in which the employees render the related service.

> **Example :** Wages, salaries, social security contributions (PF / ESI), paid annual leave / sick leave.

3. ***Post-employment Benefits:*** Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

> **Example** : Pensions, lumpsum payments on retirement.

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4. ***Other long-term employee benefits*** are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

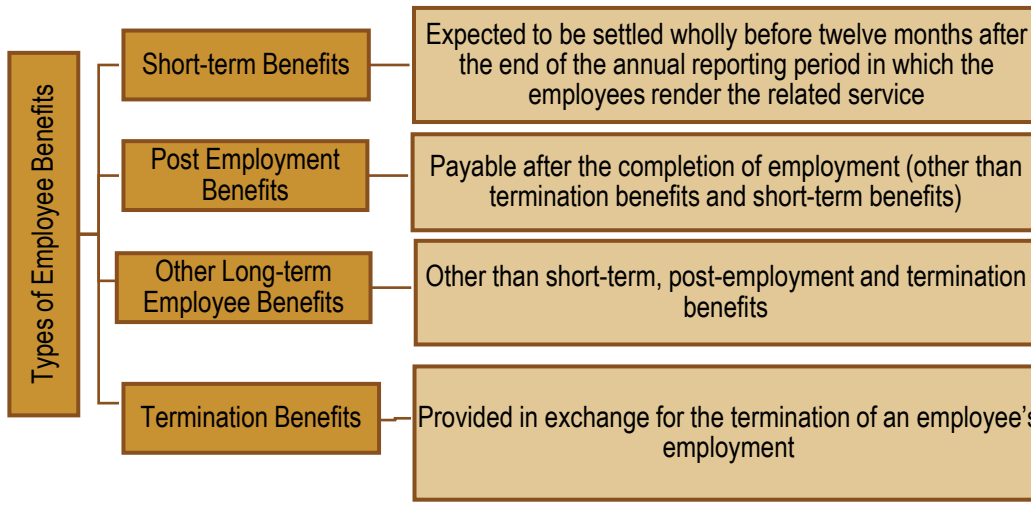
Example : Long-term paid absences such as long-service leave or sabbatical leave, jubilee or other long-service benefits.

5. ***Termination benefits*** are employee benefits provided in exchange for the termination of an employee's employment 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 an offer of benefits in exchange for the termination of employment.

Example : VRS compensation or Retrenchment compensation



1.4.2 Definitions relating to classification of plans

1. ***Post-employment Benefit Plans:*** These plans are **formal** or **informal** arrangements under which an entity provides post-employment benefits for one or more employees.

Under these plans, the benefits are given to the employees after employment, like gratuity, pension, provident fund etc.

Note: Defined contribution plans and defined benefit plans are two categories of post-employment benefits plans.

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2. ***Defined Contribution Plans:*** They are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a Fund) and will have **no** legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

   In these plans, the contribution is defined i.e. contribution is fixed and known to the entity.

   Example :Provident Fund contribution by the employer to the Employees' Provident Fund Organisation under Ministry of Labour & Employment, Government of India.

3. ***Defined Benefit Plans:*** Post-employment benefit plans other than defined contribution plans.

   Example: Gratuity.

4. ***Multi-employer Plans:*** Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

   (a) pool the assets contributed by various entities that are not under common control; and

   (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

1.4.3 Definitions relating to the net defined benefit liability (asset)

1. ***Net defined benefit liability (asset)***: The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

2. ***Deficit or surplus:***

   (a) the present value of the defined benefit obligation ***less***

   (b) the fair value of plan assets (if any).

3. ***Asset ceiling***: The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

4. ***Present value of a defined benefit obligation:*** Present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

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5. **Plan assets** comprise:

   (a) assets held by a long-term employee benefit fund; and

   (b) qualifying insurance policies.

6. ***Assets held by a long-term employee benefit fund:*** Assets (other than non-transferable financial instruments issued by the reporting entity) that:

   (a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and

   (b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:

      (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

      (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

7. ***Qualifying Insurance Policy:*** Insurance policy issued by an insurer that is not a related party (as defined in Ind AS 24, *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

   (a) can be used only to pay or fund employee benefits under a defined benefit plan; and

   (b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:

      (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

      (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

   It may be noted that a qualifying insurance policy is not necessarily an insurance contract as per Ind AS 117.

8. ***Fair Value:*** The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (Ind AS 113, Fair Value Measurement.)

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1.4.4 Definitions relating to defined benefit cost

1. ***Service cost*** comprises:

   (a) *Current service cost*, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

   (b) *Past service cost,* which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and

   (c) any gain or loss on settlement.

2. ***Net interest on the net defined benefit liability (asset):*** The change during the period in the net defined benefit liability (asset) that arises from the passage of time.

3. ***Remeasurements of the net defined benefit liability (asset)*** comprise:

   (a) actuarial gains and losses;

   (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

   (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

4. ***Actuarial gains and losses*** are changes in the present value of the defined benefit obligation resulting from:

   (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

   (b) the effects of changes in actuarial assumptions.

5. ***Return on plan assets:*** Interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets,

   Less:

   (a) any costs of managing plan assets; and

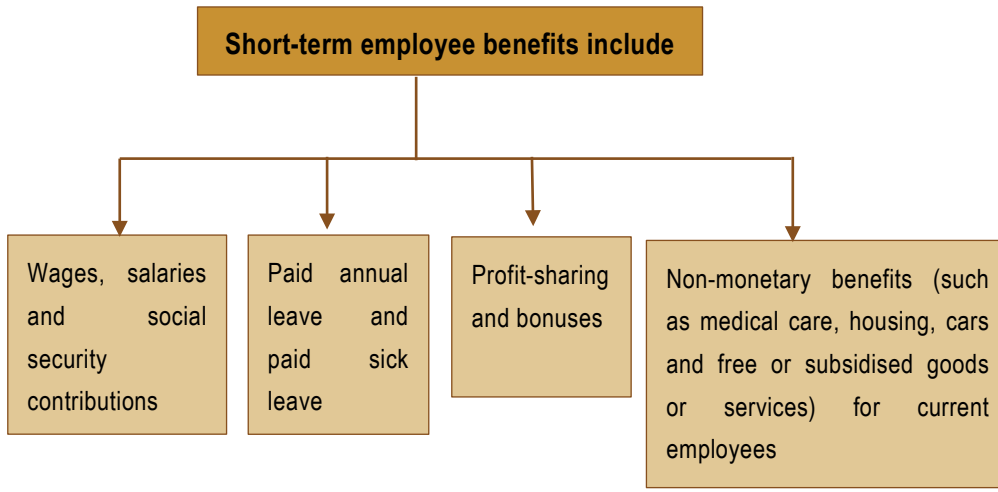
   (b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

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6. ***Settlement:*** A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

1.5 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 the employees render the related services.
- It includes
  - (a) wages, salaries and social security contributions;
  - (b) paid annual leave and paid sick leave;
  - (c) profit-sharing and bonuses; and
  - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.



- Reclassification of a short-term employee benefit is not required if the entity's expectations of the timing of settlement of such benefits change temporarily.

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❖ Reclassification may be considered-

- ➢ if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or
- ➢ if a change in expectations of the timing of settlement is not temporary.

1.5.1 Recognition and measurement of short-term benefits

Accounting for short term benefits has two characteristics:

(a) short-term benefits are measured on an undiscounted basis; and

(b) they don't involve any actuarial valuation for their measurement.

The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service shall be recognised:

(a) as a liability (accrued expense), after deducting any amount already paid.

If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, if it doesn't form part of the cost of an asset as per any other Ind AS (e.g. Ind AS 2, *Inventories* or Ind AS 16 *Property, Plant and Equipment*).

Note: Recognition of short-term employee benefit is in the form of either paid expenses or profit sharing or bonus plans.

1.5.2 Short-term paid absences

An employer may compensate an employee for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to paid absences (i.e. compensated balances) fall into two categories and are recognized as follows:

(a) **Accumulating** paid absences - recognized when the employees render service that increases their entitlement to future paid absences; and

(b) **Non-accumulating** paid absences - recognized when the absences occur.

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1.5.2.1 Accumulating paid absences

- These are the absences that are carried forward and can be used in future periods if the employee is not able to use them in current reporting period of the employer. They can be either:

  (i) **Vesting:** In this case, employees are **entitled to a cash-payment** for the unutilised entitlement at the time of leaving the entity; and

  (ii) **Non-vesting:** In this case, employees are **not entitled to a cash payment** for unused entitlement on leaving.

- This obligation exists and is recognized, even if the paid (compensated) absences are non-vesting. However, in case an employee leaves the entity before they use an accumulated non-vesting entitlement, it will affect the measurement of this obligation.

- An entity shall measure the expected cost of accumulating paid (compensated) absences as the **additional amount that the entity expects to pay as a result of the unused entitlement** that has accumulated at the end of the reporting period.

Illustration 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

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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.

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Illustration 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

Particulars	**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.

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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:

Particulars	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 3 days (leaves unutilized expected to be utilized subsequently)]	₹ 30,30,000	
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

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

Employee Benefits Expense Account	Dr.	29,70,000	
Provision for Leave Encashment Account	Dr.	30,000	
To Bank Account			30,00,000

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Illustration 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.

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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:

Particulars	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

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

Employee Benefits Expense Account	Dr.	29,80,000	
Provision for Leave Encashment Account	Dr.	20,000	
To Bank Account			30,00,000

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Illustration 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 days	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.

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Illustration 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.

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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

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Illustration 6

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

Paid vacation - 10 days per year regardless of date of hiring. Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year. As of 31st March, 20X1, unused vacation carried forward was 3 days per employee, average salary was ₹ 15,000 per day and accrued expense for unused vacation in 20X0-20X1 was ₹ 65,00,000. During 20X1-20X2, employees took 9 days of vacation in average. Salary increases in 20X1-20X2 was 10%.

Analyse how would Acer Ltd. recognize liabilities and expenses for these benefits as of 31st March, 20X2. Pass the journal entry to show the accounting treatment.

Solution

Paid Vacation:

Step 1: Calculation of Unused Vacation in man-days as on 31st March, 20X2:

A. No. of Employees in service for the whole year (94%):

Particulars	Man-days
Unused vacation as on 31st March, 20X1	3 days per employee
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee

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Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	**4 days per employee**
Total Unused vacation as on 31st March, 20X2 - (A) (350 employees x 94% x 4 days per employee)	**1,316 man-days**

B. Newcomers (6%):

Particulars	Man-days
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	**1 day per employee**
Total Unused vacation as on 31st March, 20X2 - (B) (350 employees x 6% x 1 day per employee)	**21 man-days**
Total unused vacation as on 31st March, 20X2 (A + B)	1,337 man-days

Step 2: Calculation of average salary per day:

Particulars	Amount (₹)
Average salary per day as on 31st March, 20X1	15,000
Salary increase in 20X1-20X2	10%
Average salary per day as on 31st March, 20X2	**16,500**

Step 3: Calculation of provision for unused paid vacation:

Particulars	Amount (₹)
Calculation of provision for unused paid vacation 20X1-20X2: (1,337 man-days x ₹ 16,500)	2,20,60,500
Provision for unused paid vacation 20X0-20X1	65,00,000

Step 4: Accounting treatment

Provision for 20X1-20X2

Employee Benefits Expenses A/c	Dr.	2,20,60,500	
To Provision for Leave Encashment			2,20,60,500

Settlement of Liability of 20X0-20X1

Provision for Leave Encashment A/c	Dr.	65,00,000	
To Cash / Bank			65,00,000

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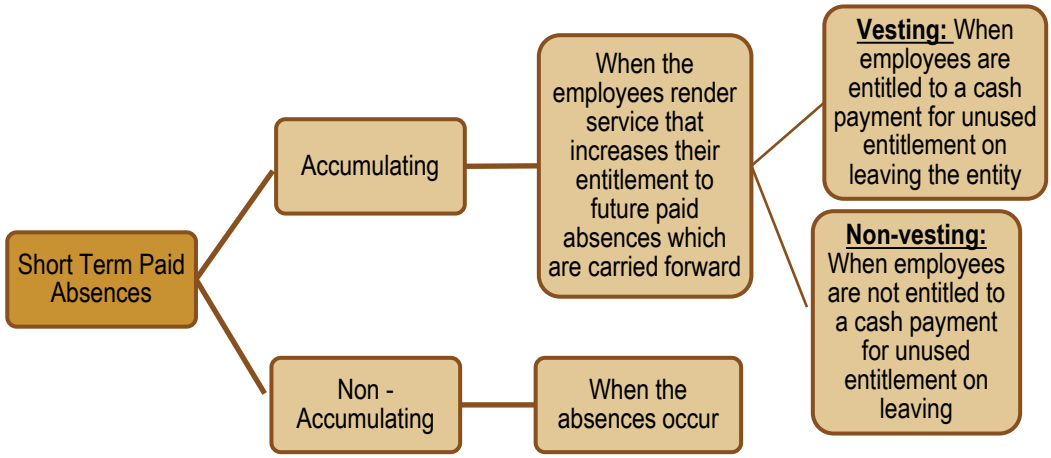
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1.5.2.2 Non-accumulating paid absences:

- These are the absences that do not carry forward and they will lapse if the current period's entitlement is not used in full by the employee; and
- They do not entitle employees to a cash payment for unused entitlement on leaving the entity.

Example: Sick pay (to the extent that unused past entitlement does not increase future entitlement).

- An entity shall recognise no liability or expense until the time of the absence because the employee service does not increase the amount of the benefit.



1.5.3 Profit-sharing and bonus plans

- Expected costs of profit-sharing and bonus plans shall be recognised when and only when:
  - (a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and
  - (b) a reliable estimate of the obligation can be made by the entity.
- A present obligation exists when, and only when, an entity has no realistic alternative but to make the payments in lieu of profits and bonuses to its employees.
- Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

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- An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.
- An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:

  (a) the formal terms of the plan contain a formula for determining the amount of the benefit;

  (b) the entity determines the amounts to be paid before the financial statements are approved for issue; or

  (c) past practice gives clear evidence of the amount of the entity's constructive obligation.

- An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. **Hence**, **an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense**.

Illustration 7

Laxmi Mills is a profit-making entity and has reported profit of ` 200 crore in the financial year 20X1-20X2. According to its profit–sharing plan, it distributes and pays 5% as its portion of profit to its employees if they complete 1 year with the organisation.

Under this plan, an entity is under an obligation to pay if the employees complete a specified period with the organisation. Laxmi Mills has estimated that due to staff turnover in the organisation, the estimated pay-out would be around 4.5%.

Compute the liability and expense of the company under this plan.

Solution

The company shall recognize a liability and an expense of an amount of ₹ 9 crores for the financial year 20X1-20X2 (i.e. 4.5% of ₹ 200 crores).

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Illustration 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:

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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. Pass 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:

Provision for Bonus for 20X2-20X3

Employee Benefits Expenses A/c	Dr.	4,46,20,625	
To Provision for Bonus 20X2-20X3			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.

*****

❖ If profit-sharing and bonus payments are **not settled wholly before the twelve months after the end of the reporting period** in which the employees render the related service, those payments are **considered as other long –term employee benefits**.

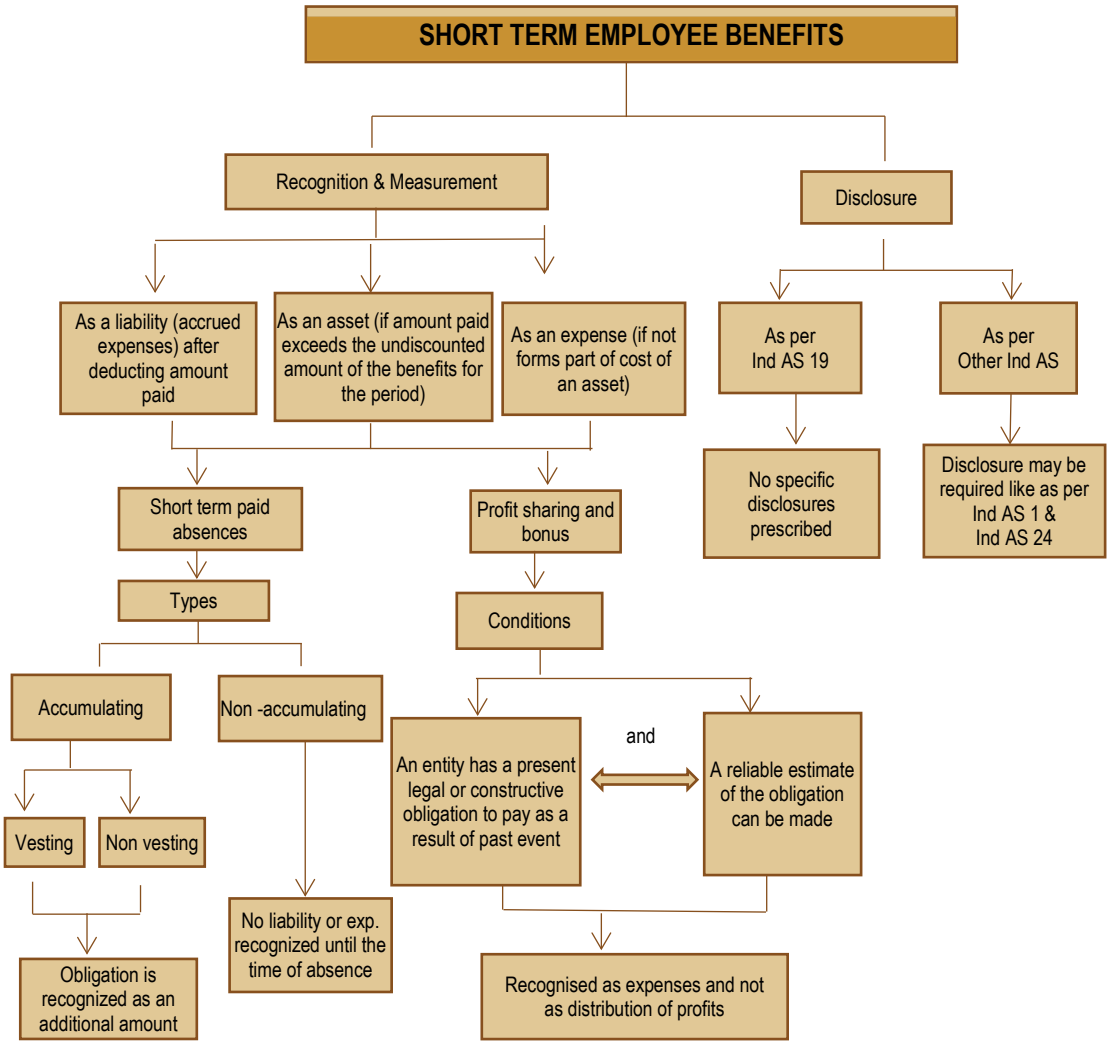
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1.5.4 Disclosure

- This Standard does not require specific disclosures about short-term employee benefits.
- However, other Ind AS may require disclosures.

Examples:

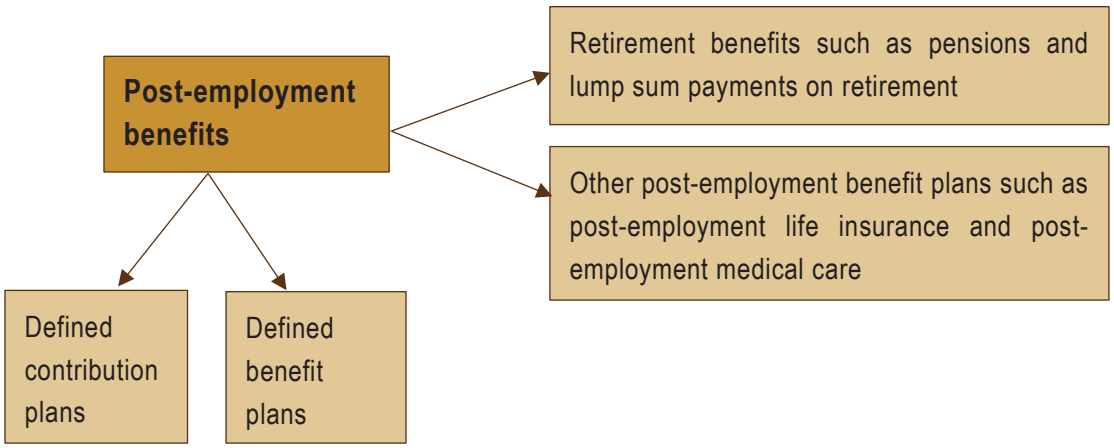
- Ind AS 24 requires disclosures about employee benefits for key management personnel.
- Ind AS 1, Presentation of Financial Statements, requires disclosure of employee benefits expense.



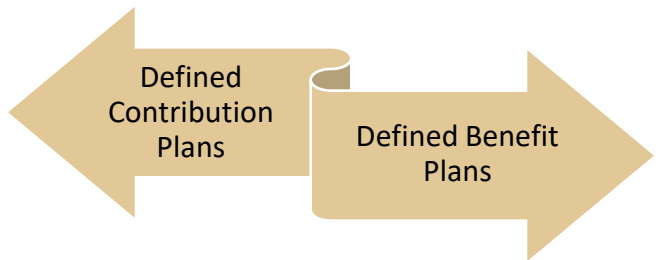
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1.6 POST-EMPLOYMENT BENEFITS

- Post-employment benefits include:
  - (a) Retirement benefits such as pensions and lump sum payments on retirement; and
  - (b) Other post-employment benefit such as post-employment life insurance and post-employment medical care.
- Depending upon the economic substance of the plan which is derived from its principal terms and conditions, post-employment benefit plans are classified as
  - (i) **either** defined contribution plans
  - (ii) **or** defined benefit plans.



1.6.1 Classification of post-employment Benefit Plans into Defined Contribution Plan vs Defined Benefit Plans



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1.6.1.1 Under defined contribution plans

(a) The entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

(b) Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions.

(c) As a result of this, actuarial risk (which means that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance on the employee (and not on the entity like in defined benefit plan).

Exception:

There are cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund as the entity has a legal or constructive obligation. Examples of such cases are listed below:

(a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) informal practices that give rise to a constructive obligation.

For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

1.6.1.2 Under defined benefit plans

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and

(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity (and not on the employee like in the case of defined contribution plan).

(c) Thus, if actuarial or investment experience are worse than expected, the entity's obligation may be increased.

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The above differences can be summarized as follows:

S. No.	Particulars	Defined Contribution Plans	Defined Benefit Plans
1.	*Entity's obligation*	The entity's legal or constructive obligation **is limited to the amount** that it agrees to contribute to the fund.	The entity's obligation is to **provide the agreed benefits** to current and former employees.
2.	*Risk bearer*	Actuarial risk and investment risk **fall on the employee** and not on the entity.	Actuarial risk and investment risk **fall on the entity** and not on the employee.
3.	*Change in the obligation*	Generally, no change in the contribution of an entity is made except in certain cases.	If actuarial or investment experience are worse than expected, **the entity's obligation may be increased** for providing to the employees.
4.	*Determination of the amount of post-employment benefit*	The amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity and employee as well.	Pre-determined / Agreed post-employment benefits are received by the employee.

Illustration 9

A company pays each employee a lump-sum one-time benefit upon retirement. This benefit is computed based on the employee's years in service in the company and the final salary prior to retirement. To cover its liabilities from this remuneration, the company contributes 3% of annual gross salaries to the fund.

Comment whether this obligation represent a defined contribution plan or a defined benefit plan and why?

Solution

Defined benefit plan

Reason: Although the Company pays contributions to the fund to cover its liabilities, amount of remuneration is determined in advance and Company will have to carry the risk in case the fund's assets are not sufficient to cover remuneration in full.

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Illustration 10

In accordance with applicable legislation, company contributes 12% and employees 12% of annual gross salaries to the provident and pension fund. Upon retirement, the employees will get the accumulated balance that is calculated based on employee's years of service and his average salary for past 15 years before retirement. The pension will be paid out of the state fund assets and the company has no further obligation except to make contributions.

Analyse whether this obligation represent a defined contribution plan or a defined benefit plan.

Solution

Defined contribution plan

Reason: Although employee's pension is determined in advance by the formula (and thus employees neither carry actuarial nor investment risks), Company's liability is limited to contributions to the fund. In this case, as pension will be paid out of the state fund, it is a state fund which carries all the risks.

*****

1.6.2 Multi-employer plans

- An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).
- In the case of a multi-employer defined benefit plan, normally
  - The amount of contributions is decided keeping in mind the amount of benefits that an entity is required to pay in the same period and
  - The future benefits that an entity gets during the current period will be paid out of future contributions.
  - Employers have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned.
  - Employees' benefits are determined by the length of their service in the entity as a future amount which is required to be paid to them. Such a plan would create actuarial risk to the entity (i.e. if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or to persuade employees to accept a reduction in benefits).

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❖ In case the multi-employer plan is a defined benefit plan, an entity shall:

(a) account for its proportionate share of the

(i) defined benefit obligation;

(ii) plan assets; and

(iii) cost associated with the plan

in the same way as for any other defined benefit plan; and

(b) disclose the information required.

❖ When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

(a) account for the plan as if it were a defined contribution plan;

(b) disclose:

(i) the fact that the plan is a defined benefit plan;

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and

(iii) the expected contributions to the plan for the next annual reporting period; and

(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose:

(i) available information about that surplus or deficit;

(ii) the basis used to determine that surplus or deficit; and

(iii) the implications, if any, for the entity.

❖ The reasons that an entity is not able to term its plan as a defined benefit plan and has to account for a plan as multi-employer defined contribution plan, this may occur if:

➢ the entity does not have access to sufficient information about the plan to satisfy the requirements of this Standard; or

➢ the plan exposes the entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

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- There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan shall recognise
  - the asset or liability that arises from the contractual agreement and
  - the resulting income or expense in profit or loss.
- In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Example 1

Paras Pvt. Ltd. does not have sufficient information about a defined benefit plan and thus accounts for the plan as if it were defined contribution plan.

In the plan, there is a contractual agreement between Paras Pvt. Ltd. and its participants to share the deficit amongst all. The funding valuation shows a deficit of ₹ 500 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next 10 years. The entity's total contributions under the contract are ₹ 30 million.

As per Ind AS 19, Paras Pvt. Ltd. should recognise a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

1.6.3 Group administration plans

- A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs.
- The claims of different employers are segregated for the sole benefit of their own employees. In other words, the individual identities of the employees and their entities are preserved, unlike in case of multi-employer plans wherein the identity of the employees and the entities are lost in the common pool.
- Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan. This is

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because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities.

- An entity should classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms)

1.6.4 Defined benefit plans that share risks between entities under common control

- Defined benefit plans that share risks between entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.
- An entity who is participating in such a plan shall obtain information about the plan as a whole on the basis of assumptions that it applies to the plan as a whole.
- The entity shall, in its separate or individual financial statements, recognise the net defined benefit cost it charged, if there is a contractual agreement or stated policy for charging the net defined benefit cost for the whole plan to individual group entities.
- In case there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan.
- The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.
- Participation in such kind of plan is a related party transaction for each individual group entity. Therefore, following **disclosures** are required by an entity in its separate or individual financial statements:

  (a) the contractual agreement or stated policy according to which net defined benefit cost has been charged by the individual entity or the fact that there is no such policy.

  (b) the policy for determining the contribution to be paid by the entity.

  (c) if the entity accounts for an allocation of the net defined benefit cost, then disclosure has to be made for information about the whole plan.

  (d) if the entity accounts for the contribution payable for the period, the information about the plan also needs to be disclosed for the plan as a whole.

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1.6.5 State plans

- A state plan is accounted for in the same way as a multi-employer plan.
- State plans are normally established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.
- Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.
- State plans are characterised as defined benefit or defined contribution, depending on the entity's obligation under the plan.
- Many state plans are funded on a pay-as-you- go basis which implies that contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period. In such kind of a case, future benefits earned during the current period will be paid out of future contributions.
- In most of the state plans, the entity has no legal or constructive obligation to pay those future benefits as its only obligation as an entity is to pay the contributions as they fall due and in case the entity does not employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans.

1.6.6 Insured benefits

- An entity normally pays insurance premiums for funding a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan.
- The entity shall treat the plan as a defined benefit plan in case an entity has (either directly, or indirectly through the plan) retained a legal or constructive obligation, either to pay:

  (a) the employee benefits directly when they fall due; or

  (b) further amounts if the insurer does not pay all future employee benefits which are relating to employee service in the current and prior periods.
- Where an entity is funding a post-employment benefit obligation and contributes to an insurance policy under which the entity retains a legal or constructive obligation, in this

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case the payment of the premiums does not amount to a defined contribution arrangement. This can be either directly or indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer. Hence the entity shall:

(a) account for a qualifying insurance policy as a plan asset; and

(b) recognise other insurance policies as reimbursement rights.

- The entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy.
- The payment of fixed premiums under such kind of arrangement is a settlement of the employee benefit obligation rather than an investment to meet the obligation. Therefore, an entity treats such payments as contributions to a defined contribution plan.

1.7 ACCOUNTING FOR DEFINED CONTRIBUTION PLANS

- The reporting entity's obligation for each period is determined by the amounts to be contributed for that period.
- No actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.
- The obligations are measured on an undiscounted basis.

Exception:

Discounting is done where the obligation falls due after twelve months after the end of the annual reporting period in which the employees render the related service.

1.7.1 Recognition and measurement

When an employee has rendered service to an entity during a period, the entity shall **recognise the contribution payable** to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid.

In case the amount of contribution already paid under a defined contribution plan exceeds the contribution due for service before the end of the reporting period, an entity shall

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recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, a reduction in future payments or a cash refund; and

(b) as an expense if not included in the cost of an asset as per other Ind AS (for example, according to Ind AS 2 and Ind AS 16).

Where contributions to a defined contribution plan do not fall due wholly before twelve months after the end of the annual reporting period in which the employees render the related service, the contributions shall be discounted using the discount rate as specified in this Standard.

1.7.2 Disclosure

- An entity shall disclose the amount recognised as an expense for defined contribution plans.
- An entity shall disclose information about contributions to defined contribution plans for key management personnel where required as per Ind AS 24.

Illustration 11

Acer Ltd. provides lump-sum remuneration upon retirement to its employees. Remuneration is paid out of the fund to which Acer Ltd. contributes 12% of annual gross salaries. Contributions are made twice a year i.e. in November of the related financial year and in June after the financial year-end. Total annual gross salaries for 20X0-X1 amounted to ₹ 50 crores. Contribution made by Acer Ltd. in November 20X0 was ` 2.8 crores. Remuneration depends on the number of employee's service and amount of cash in the fund at retirement date (Acer Ltd. has no further obligations except for contributions).

How should this transaction appear in the financial statements of Acer Ltd. as of 31st March 20X1?

Solution

1. Calculation of accrual for contributions in 20X0-20X1:

Annual gross salaries in 20X0-20X1:	₹	50.00 crores
Amount of total contributions for 20X0-20X1 (12%):	₹	6.00 crores
Contributions already made in November 20X0:	₹	2.80 crores
Accrual (₹ 6 crores - ₹ 2.8 crores)	₹	3.20 crores

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2. Accounting Treatment:

Employee Benefits Expenses Account	Dr.	6.00 crores	
To Bank Account			2.80 crores
To Contribution Payable			3.20 crores

The contribution of ₹ 6 crores will be debited to the statement profit and loss. The contribution payable of ₹ 3.20 crores will appear as a liability as at 31st March, 20X1.

*****

1.8 ACCOUNTING FOR DEFINED BENEFIT PLANS

Accounting for defined benefit plans is complex because -

- ❖ actuarial assumptions are required to measure the obligation and the expense;
- ❖ there is a possibility of actuarial gains and losses;
- ❖ the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Illustration 12

Dinkar Ltd., a large IT company, accounts for gratuity on payment basis, and supports such accounting policy by making the following disclosure in the Financial Statements:

"Due to high labour turnover, a large degree of uncertainty is involved in estimating the liability of gratuity. Accordingly, the management opines that as the estimates of the uncertainty would confuse the readers by complicating the financial statements, such liability would be recorded on payment basis."

The management opines that by making the above disclosures, the company is complying with the requirements of all the Ind AS, as a disclosure to the effect of the above is given. The management is also willing to specifically highlight the above aspect by making it conspicuous in the financial statements.

Is the contention of management correct as per the provisions of Ind AS?

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Solution

Gratuity represents a payment being made to an employee upon retirement / resignation from the organization. The amount is determined in accordance with the provisions of the Gratuity Act, 1972, which applies to Dinkar Ltd. Since the amount is determined pursuant to a formula laid down under the statue, the gratuity payable represents a Defined Benefit Plan that is to be paid to the employees, with the actuarial risk and investment risk both belonging to the employer. Thus, Dinkar Ltd. must comply with Ind AS 19 and provide for the gratuity on an annual basis.

In estimating the liability for gratuity, there would be several assumptions involved such as mortality rate, staff attrition rate, salary at the time of retirement / resignation, discount rate etc., all of which have to be considered by Dinkar Ltd. The complexity involved in this exercise does not provide Dinkar Ltd. with an excuse to avoid accrual accounting.

Dinkar Ltd. has stated that it would be willing to make a disclosure to the effect of the departure from Ind AS 8 requirements. In terms of Para 19 of Ind AS 1, departure is permitted in **extremely rare** circumstances wherein the management concludes that compliance with an Ind AS requirement would be so **misleading** that it would **conflict** with the objective of the Financial Statements set out in the Framework.

In the given case, compliance with Ind AS would not be a conflict, as the compliance with Ind AS 19 would ensure that the accrual assumption laid down in the Framework is complied with. Further, a disclosure cannot be a remedy for non-compliance. Therefore, the company have to state that the Ind AS have not been complied with by the company in the preparation and presentation of its Financial Statements.

Hence, the company will have to suitably modify the financial statements considering the materiality and pervasiveness of the non-compliance.

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1.8.1 Recognition and measurement

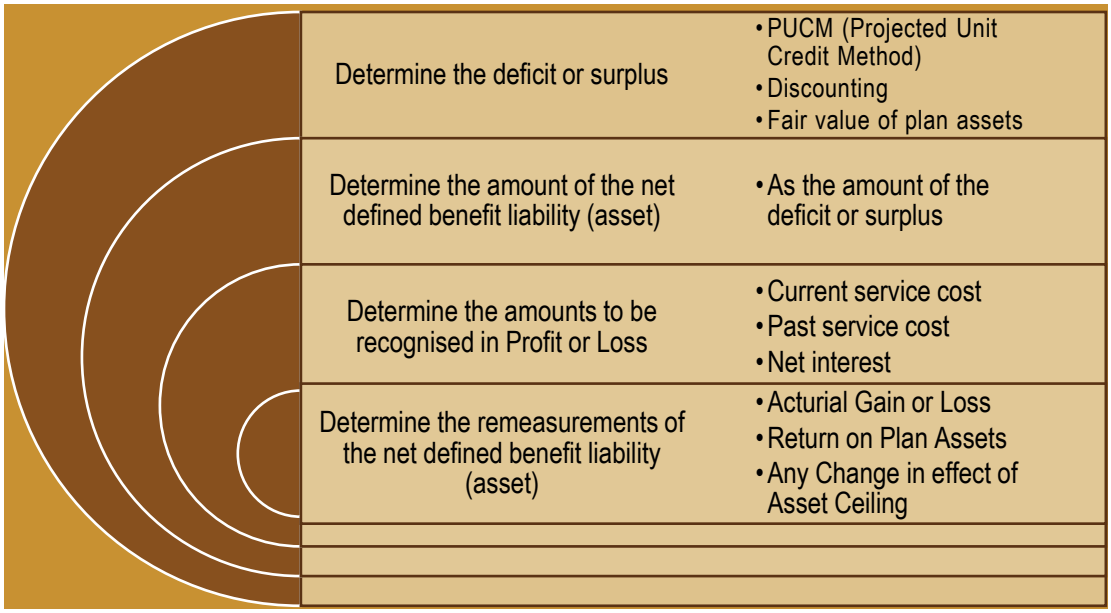
- Defined benefit plans can be:
  - Unfunded; or
  - Wholly or partly funded

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by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid.

- The payment of funded benefits when they fall due depends on
  - the financial position and the investment performance of the fund; and
  - an entity's ability (and willingness) to make good any shortfall in the fund's assets.
- Therefore, the entity, in substance, underwrites the actuarial and investment risks associated with the plan.
- Hence the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

1.8.1.1 Steps involved in accounting by an entity for defined benefit plans



Step I:Determining the Deficit or Surplus

This involves:

(a) using actuarial techniques, the projected unit credit method, to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods.

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This requires an entity to -

(i) determine how much benefit is attributable to the current and prior periods and

(ii) make estimates (actuarial assumptions) about

- demographic variables (such as employee turnover and mortality); and
- financial variables (such as future increases in salaries and medical costs)

that will influence the cost of the benefit;

(b) discounting that benefit in order to determine the present value of the defined benefit obligation; and the current service cost

(c) deducting the fair value of any plan assets from the present value of the defined benefit obligation.

Step II:Determining the amount of the net defined benefit liability (asset)

Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in step I above, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

Step III:Determining amounts to be recognised in profit or loss:

(i) current service cost.

(ii) any past service cost and gain or loss on settlement.

(iii) net interest on the net defined benefit liability (asset).

Step IV:Determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses;

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(iii) any change in the effect of the asset ceiling, **excluding** amounts included in net interest on the net defined benefit liability (asset).

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In case an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

1.8.2 Accounting for the constructive obligation

- Accounting for any constructive obligation will also be done by an entity that arises from the entity's informal practices.
- Constructive obligation arises due to informal practices where the entity has no realistic alternative but to pay employee benefits.
- Example - Where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees
- The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained.
- Hence accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees, in the absence of evidence to the contrary.

1.8.3 Balance sheet

- An entity shall recognise the net defined benefit liability (asset) in the balance sheet.
- When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset **at the lower of:**

  (a) the surplus in the defined benefit plan; and

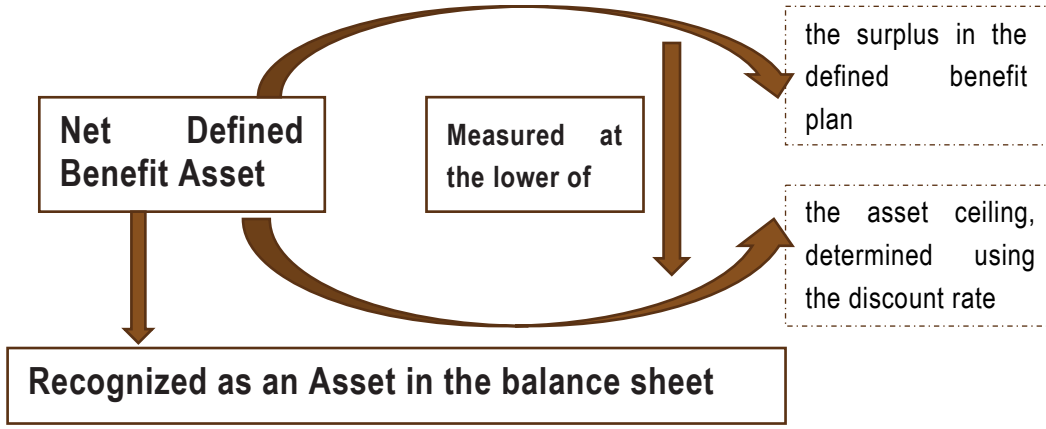
  (b) the asset ceiling, determined using the discount rate.
- A net defined benefit asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are arisen. An entity recognises a net defined benefit asset in such cases because:

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(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.



Comparison with recognition of Deferred Tax Asset under Ind AS 12 *Income Taxes*:

As per para 24 of Ind AS 12 *Income Taxes*, a deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is **probable** that taxable profit will be available against which the deductible temporary difference can be utilised.

The principle of taxable profit being available for future utilization of deductible temporary difference is essential under Ind AS 12 in order to recognise Deferred Tax Assets. However, in Ind AS 19, no such principle of establishing probability is required as the Plan Assets represent actual investments which are held by the entity (albeit through a separate trust specially formed).

Illustration 13

How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	***₹ in lakhs***
PV of Defined Benefit Obligations	*3,500*
Fair Value of Plan Assets	*3,332*

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Solution

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	3,500
Less: Fair Value of Plan Assets	(3,332)
Deficit, to be treated as Net Defined Benefit Liability under Non-current Liabilities as Provisions in the Balance Sheet	**168**

*****

Illustration 14

How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	*₹ in lakhs*
PV of defined benefit obligations	*2,750*
Fair value of plan assets	*2,975*
Asset ceiling	*175*

Solution

Particulars	₹ in lakhs
PV of defined benefit obligations	2,750
Less: Fair value of plan assets	(2,975)
Surplus, to be treated as net defined benefit asset	**225**
Asset ceiling as per Ind AS 19	175
Least of above is surplus to be treated as net defined benefit asset under non-current assets in the Balance Sheet	**175**

*****

1.9 RECOGNITION AND MEASUREMENT: PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AND CURRENT SERVICE COST

The cost of a defined benefit plan is influenced by many variables, such as

- ❖ final salaries;
- ❖ employee turnover and mortality;

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- ❖ employee contributions; and
- ❖ medical cost trends.

Hence the ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time.

In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method;

(b) attribute benefit to periods of service; and

(c) make actuarial assumptions.

1.9.1 Actuarial valuation method

- ❖ Projected Unit Credit Method (PUCM) is used by an entity to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.
- ❖ The Projected Unit Credit Method (which is also sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) perceives each period of service as which gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Illustration 15

AJ Ltd is engaged in the business of trading of chemicals having a net worth of ₹ 150 crores. The company's profitability is good and hence the company has introduced various benefits for its employees to keep them motivated and to ensure that they stay with the organization. The company is an associate of RJ Ltd which is listed on Bombay Stock Exchange in India.

The company initially did not have any HR function but over the last 2 years, the management set up that function and now HR department takes care of all the benefits related to the employees and how they can be structured in a manner beneficial to both the employees and the objectives of the company.

One of the employee benefits involves a lump sum payment to employee on termination of service and that is equal to 1 per cent of final salary for each year of service. Consider the salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year.

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Taking a discount rate at 10 per cent per year, you are required to compute

(a) benefits attributed (year on year) and

(b) the obligation in respect of this benefit (year on year)

For an employee who is expected to leave at the end of year 5

Following assumptions may be taken to solve this:

- *There are no changes in actuarial assumptions.*
- *No additional adjustments are needed to reflect the probability that the employee may leave the entity at an earlier or later date.*

Solution

a. Computation of benefit attributed to prior years and current year:

Amount in ₹

Year	1	2	3	4	5
Benefit attributed to:					
- Prior years	-	131	262	393	524
- Current year (Refer W.N.1)	131	131	131	131	131
Total (i.e. current and prior years)	**131**	**262**	**393**	**524**	**655**

b. Computation of the obligation for an employee who is expected to leave at the end of year 5 (taking discount rate of 10% p.a.) **Amount in ₹**

Year	1	2	3	4	5
Opening obligation (A)	-	89	196	324	475
Interest at 10% (B = A X 10%)	-	9	20	32	47
Current service cost (C) (Refer WN 2)	89	98	108	119	131
Closing obligation D = (A+B+C)	**89**	**196**	**324**	**475**	**653**

Figures have been rounded off in the above table.

Working Notes:

1. A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year.

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The year on year salary would be as follows: Amount in ₹

Year	1	2	3	4	5
Salary	10,000	10,700 (10,000 x 107%)	11,449 (10,700 x 107%)	12,250 (11,449 x 107%)	13,108 (12,250 x 107%)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

2. Computation of current service cost: Amount in ₹

Year	1	2	3	4	5
1% salary at the end of year 5	-	-	-	-	131
PV factor at the end of each year to be considered at 10% p.a. **(E)**	0.683	0.751	0.826	0.909	1.000
PV at the end of each year	89 (131 x E)	98 (131 x E)	108 (131 x E)	119 (131 x E)	131 (131 x E)

Accordingly, for the purpose of above-mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

*****

❖ An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

1.9.2 Attributing benefit to periods of service

❖ An entity shall attribute benefit to periods of service under the plan's benefit formula, in determining the present value of its defined benefit obligations and the related current service cost, and, where applicable, past service cost.

❖ However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until

(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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- The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations).

  An entity will attribute benefit to periods in which the obligation to provide post-employment benefits arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods.

- These kind of actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Example 2

A defined benefit plan provides a lump-sum benefit of ₹ 200 payable on retirement for each year of service. A benefit of ₹ 200 is attributed to each year. The current service cost is the present value of ₹ 200. The present value of the defined benefit obligation is the present value of ₹ 200, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

- Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (***in other words they are not vested***).

- Employee service given the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. An entity considers the probability that some employees may not satisfy any vesting requirements in measuring its defined benefit obligation.

- Although, certain post-employment benefits, for example, post- employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs.

  The probability that the specified event will occur affects the measurement of the obligation but does not determine whether the obligation exists.

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Illustration 16

A plan pays a benefit of ₹ 150 for each year of service. The benefits vest after ten years of service. Compute the benefit to be attributed each year?

Solution

1. A benefit of ₹ 150 is attributed to each year.

2 In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service. This is because the benefits vest at a future date (i.e. after ten years of service).

*****

Illustration 17

A plan pays a benefit of ₹ 150 for each year of service, excluding service before the age of 25. The benefits vest immediately. Compute the benefit to be attributed each year?

Solution

1. No benefit is attributed to the service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional).

2. A benefit of ₹ 150 is attributed to each subsequent year. There is no requirement to reflect any probability of completion as the benefits vest immediately.

*****

❖ The obligation increases till the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula.

However, in case an employee renders service in later years which will lead to a materially higher level of benefit than in earlier years, an entity will attribute benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Example 3

A plan pays a lump-sum retirement benefit of ₹ 4,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

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Category of Employee	Description	Benefit attributed per year
Employees who join before the age of 35	▪ These employees will be in service for 20 years at the age of 55. Accordingly, the service leads to benefits at the age of 35 and are conditional of further service. ▪ However, service beyond the age of 55 leads to no material amount of further benefits (i.e. benefit will still be the same).	▪ For these employees, the entity attributes benefit of ₹ 200 (₹ 4,000 divided by 20 years) each year from the age of 35 to the age of 55. ▪ The current service cost and the present value of the obligation should reflect the probability of an employee not completing the necessary service period.
Employees who join after the age of 35	▪ These employees will not be in service for 20 years at the age of 55 and must wait till the age of 65, regardless of the years of service. ▪ The service leads to benefits at the beginning of employment and service beyond age 65 leads to no material amount of further benefits.	▪ For these employees, the entity attributes benefit of ₹ 4,000 ÷ (65 years – whatever age when employment started may be 40, 45, 50…) to each year of service from the start until the age of 65. ▪ The current service cost and the present value of the obligation should reflect the probability of an employee not completing the necessary service period.

Illustration 18

Amra Pvt. Ltd. has a plan for its employees where it has decided to pay a lump-sum benefit of ₹ 2,000 that will vest after ten years of service. However, that plan will provide no further benefit for subsequent service.

Compute the benefit attributed for 10 years of service and for the period of service after 10 years?

Solution

1. In this case, as per the company's plan, a benefit of ₹ 200 (₹ 2,000 ÷ 10 years) is attributed to each of the first 10 years.

2. The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. This is because the benefits vest at a future date (i.e. after ten years of service).

No benefit is attributed to subsequent years.

*****

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Illustration 19

Sanat Pvt. Ltd. has a plan for the employees where employees are entitled to a benefit of 5% of final salary for each year of service before the age of 55.

Compute the benefit attributed up to 55 years and after 55?

Solution

Benefit of 5% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

*****

Illustration 20

A post-employment medical plan reimburses 40 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Determine how will the benefit be attributed to the years of service.

Solution

1. Under the Plan's Benefit Formula, the entity should attribute 4% of the present value of the expected medical costs (40% ÷ 10 years) to each of the first ten years, and 1% (10% ÷ 10 years) to each of the second ten years.
2. For employees expected to leave within 10 years, no benefit is attributed.
3. The Current Service Cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits.

*****

Illustration 21

A post-employment medical plan reimburses 10 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

Determine how will the benefit be attributed to the years of service.

Solution

1. Service in later years will lead to a materially higher level of benefit than in earlier year. So, for employees expected to leave after 20 or more years, the entity should attribute benefit

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on a straight-line basis under Para 71. Service beyond 20 years will lead to no material amount of further benefits. So, the benefit attributed to each of the first 20 years will be 2.5% of the Present Value of the Expected Medical Costs (50% ÷ 20 years).

2. For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% (10% ÷ 10 years) of the Present Value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

3. For employees expected to leave within ten years, no benefit is attributed.

4. The Current Service Cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits.

*****

Illustration 22

AKJ Ltd is a listed company engaged in the business of manufacturing of electronic equipment. The company has various branch offices spread out across India and has 1,000 employees.

As per the statutory requirements, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years -

(a) on his superannuation, or

(b) on his retirement or resignation, or

(c) on his death or disablement due to accident or disease.

The completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement.

The amount payable is determined by a formula linked to number of years of service and last drawn salary. The amount payable to an employee shall not exceed ₹ 10,00,000.

Compute the amount of employee benefit, if any, attributed to each year of service.

Solution

The amount of gratuity would be attributed to each year of service and calculated as follows:

Number of employees not likely to fulfil the eligibility criteria will be ignored.

Other employees will be grouped according to period of service they are expected to render taking into account:

❖ mortality rate,

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- disablement and
- resignation after 5 years.

Gratuity payable will be calculated in accordance with the formula prescribed in the governing statute based on the period of service and the salary at the time of termination of employment, assuming promotion, salary increases etc.

For those employees for whom the amount payable as per the formula does not exceed ₹ 10,00,000, over the expected period of service, the amount payable will be divided by the expected period of service and the resulting amount will be attributed to each year of the expected period of service, including the period before the stipulated period of 5 years.

In case of the remaining employees, the amount as per the formula exceeds ₹ 10,00,000 over the expected period of service of 10 years (say), and the amount of the threshold of ₹ 10,00,000 is reached at the end of 8 years (assumed) i.e. ₹ 1,25,000 (₹ 10,00,000 ÷ 8 years) is attributed to each of the first 8 years. In this case, no benefit is attributed to subsequent two years. This is because service beyond 8 years will lead to no material amount of further benefits.

*****

1.9.3 Actuarial assumptions

- Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.
- Actuarial assumptions shall be unbiased and mutually compatible.
- Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.
- Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, salary increment rate and discount rates.
- For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.
- Actuarial assumptions comprise:

  (a) **demographic assumptions** about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

  (i) mortality, both during and after employment;

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(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits;

(iv) the proportion of plan members who will select each form of payment option available under the plan terms; and

(v) claim rates under medical plans; and

(b) **financial assumptions,** dealing with items such as:

(i) the discount rate;

(ii) future salary and benefit levels;

(iii) in the case of medical benefits, future medical costs, including claim handling costs (i.e. the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees); and

(iv) taxes payable by the plan on contributions relating to service before the reporting date or on benefits resulting from that service.

❖ An entity determines discount rate and other financial assumptions in nominal (stated) terms unless estimates in real (inflation-adjusted) terms are more reliable. For example, in a hyperinflationary economy, or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

❖ Financial assumptions are based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

1.9.3.1 Actuarial assumptions: mortality and discount rate

1. Mortality Assumptions

Entity is required to determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

In order to estimate the ultimate cost of the benefit an entity shall takes into consideration the expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

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2. Discount Rate Assumptions

- The rate which is used to discount post-employment benefit obligations (both funded and unfunded) is **determined by reference to market yields on government bonds** at the end of the reporting period.
- **Subsidiaries, associates, joint ventures and branches domiciled outside India** shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate **determined by reference to market yields** at the end of the reporting period **on high quality corporate bonds**.
- In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries **where there is no deep market in such bonds, the market yields** (at the end of the reporting period) **on government bonds** of that country **shall be used**.
- The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations as the pay-outs will happen in same currency only.
- The discount rate reflects the estimated timing of benefit payments/time value of money and not the actuarial or investment risk. This also does not reflect entity-specific credit risk borne by the entity's creditors.
- Thus, practically speaking, it is achieved by an entity by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.
- Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.
- **Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation** throughout that period and taking account of any material changes in the obligation.

1.9.3.2 Actuarial assumptions: salaries, benefits and medical costs

- Defined benefit obligations shall be measured on a basis that reflects:

  (a) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

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(b) estimated future salary increases;

(c) the effect of any limit on the employer's share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

(ii) historical data, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

❖ Estimates of future salary increases are calculated after taking account inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

❖ The formal terms of the plan (or a constructive obligation that goes beyond those terms) require an entity to consider change in benefits for future periods; the measurement of the obligation reflects those changes at the end of the reporting period will impact actuarial gains and losses.

For examples when:

(a) entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants; or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

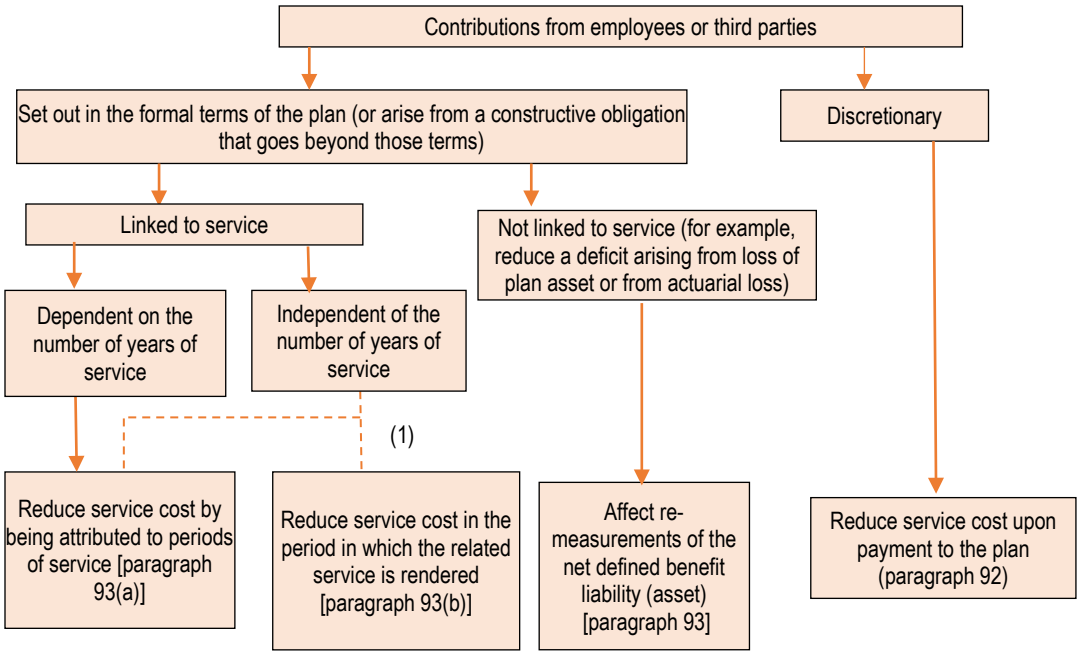
❖ Further, future benefit changes that are not set out in formal terms of the plan (or a constructive obligation) at the end of the reporting period; will result in impacting past

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service cost and current service cost for the period after change to the extent of such change in benefits for the service.

- Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.
- Assumptions about medical costs shall take into account estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.
- Post-employment medical benefits measurement requires assumptions about the level and frequency of future claims and the cost of meeting those claims. Future medical costs are estimated on the basis of historical data about the entity's own experience and in case some more data is required to analyse the data, this data is gathered as historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs would consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.
- The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Hence, this historical data is adjusted to the extent that the demographic mix of the population which differs from that of the population used as a basis for the historical data. Also it requires an adjustment where there is reliable evidence that historical trends will not continue.
- Some post-employment health care plans also require employees to contribute to the medical costs covered by the plan and thus estimates of future medical costs also take in account of any such contributions which are based on the terms of the plan at the end of the reporting period (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers.

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(1) This dotted arrow means that an entity is permitted to choose either accounting.

1.9.3.3 Past service cost and gains and losses on settlement

- When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting:
  - the benefits offered under the plan and the plan assets before the plan amendment, curtailment or settlement; and
  - the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement.
- An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases, an entity recognises past service cost before any gain or loss on settlement.
- When a plan amendment, curtailment or settlement occurs, an entity shall recognise and measure any past service cost, or a gain or loss on settlement. In doing so, an entity shall

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not consider the effect of the asset ceiling. An entity shall then determine the effect of the asset ceiling after the plan amendment, curtailment or settlement and shall recognise any change in that effect.

❖ A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

1.9.3.3.1 Past service cost

❖ Change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment is known as past service cost.

❖ An entity shall recognise past service cost as an expense at the earlier of the following dates:

(a) when the plan amendment or curtailment occurs; and

(b) when the entity recognises related restructuring costs (refer Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets) or termination benefits.

❖ Plan amendment happens when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

❖ Curtailment arises when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

❖ Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

❖ In case, an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

❖ Past service cost excludes the following:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

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(b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains/ return on plan assets that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss); and

(d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered).

1.9.3.3.2 Gains and losses on settlement

- A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions).
- For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.
- The gain or loss on a settlement is the difference between:

  (a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and

  (b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

- Gain or loss on the settlement of a defined benefit plan is recognised by the entity when the settlement occurs.

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1.10 RECOGNITION AND MEASUREMENT: PLAN ASSETS

1.10.1 Fair value of plan assets

- The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.
- Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.
- Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations, (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

1.10.2 Reimbursements

- An entity will recognise its right to reimbursement as a separate asset when, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation. The assets are measured at fair value by the entity and in all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of profit and loss, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.
- Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation, there an entity accounts for qualifying insurance policies in the same way as for all other plan assets. When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset.
- Further, when an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. In such a scenario, an entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining

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the defined benefit liability (asset) and in all other respects, the entity treats that asset in the same way as plan assets.

❖ If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation.

1.11 COMPONENTS OF DEFINED BENEFIT COST

❖ An entity is required to recognise the components of defined benefit cost, except to the extent that another Ind AS (refer Ind AS 2 and Ind AS 16) requires or permits their inclusion in the cost of an asset, as follows:

(a) service cost in profit or loss;

(b) net interest on the net defined benefit liability (asset) in profit or loss; and

(c) remeasurements of the net defined benefit liability (asset) in other comprehensive income.

❖ Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.

Current service cost

❖ An entity shall determine current service cost using actuarial assumptions determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset), as discussed above, it shall determine current service cost for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) in accordance with paragraph 99(b) of Ind AS 19 (i.e. reflecting the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement).

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1.11.1 Net interest on the net defined benefit liability (asset)

- An entity shall determine net interest on the net defined benefit liability (asset) by multiplying the net defined benefit liability (asset) by the discount rate specified for post-employment benefit obligation.
- To determine net interest in accordance with paragraph mentioned above, an entity shall use the net defined benefit liability (asset) and the discount rate determined at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset), the entity shall determine net interest for the remainder of the annual reporting period after considering the benefits offered under the plan and the plan asset after the plan amendment, curtailment or settlement using:

  (a) the net defined benefit liability (asset) ; and

  (b) the discount rate used to remeasure the net defined benefit liability (asset).

  Further, in applying this paragraph, the entity shall also take into account any changes in the net defined benefit liability (asset) during the period resulting from contributions or benefit payments.
- Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling.
- Interest income on plan assets is a component of the return on plan assets and is determined by multiplying the fair value of the plan assets by the discount rate specified for post-employment benefit obligation. An entity shall determine the fair value of the plan assets at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset), the entity shall determine interest income for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the plan assets used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement). Further, in applying this paragraph, the entity shall also consider any changes in the plan assets held during the period resulting from contributions or benefit payments.
- The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).
- Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling and is determined by multiplying the effect of the asset ceiling by the discount rate.

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An entity shall determine the effect of the asset ceiling at the start of the annual reporting period. However, if an entity remeasures the net defined benefit liability (asset), the entity shall determine interest on the effect of the asset ceiling for the remainder of the annual reporting period after the plan amendment, curtailment or settlement considering any change in the effect of the asset ceiling. The difference between interest on the effect of the asset ceiling and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

1.11.2 Remeasurements of the net defined benefit liability (asset)

❖ Remeasurements of the net defined benefit liability (asset) comprise:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

❖ Actuarial gains and losses occur from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Following are the few causes of actuarial gains and losses:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes to assumptions concerning benefit payment options;

(c) the effect of changes in estimates of future employee turnover, early retirement, or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) the effect of changes in the discount rate.

❖ Actuarial gains and losses does not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Rather such changes shall result in past service cost or gains or losses on settlement.

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❖ In measuring the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation. Other administration costs are not deducted from the return on plan assets.

Illustration 23

Pratap Ltd. belongs to the ship-building industry. The company reviewed an Actuarial Valuation for the first time for its pension scheme which revealed a surplus of ₹ 60 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 20 lakhs instead of ₹ 50 lakhs. The average remaining life of the employees is estimated to be 6 years.

Advise the Company in line with Ind AS 19.

Solution

1. **Recognition:** As per Ind AS 19, any Actuarial Gains and Losses should be recognized as a re-measurement of the Net Defined Benefit Liability / (Asset) in "Other Comprehensive Income".

2. **Measurement and Presentation:** In the given case, the amount of surplus from Pension Scheme of ₹ 60 lakhs is an Actuarial Gain and should be recognized as a "re-measurement" in "Other Comprehensive Income", and not to be adjusted from the amount of annual contribution in future years.

3. **Disclosure:** The change relating to Actuarial Valuation for the Pension Scheme requires disclosure under Ind AS 8. Disclosures required by Ind AS 19 should also be made in the financial statements.

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Illustration 24

RKA Private Ltd is an old company established in 19XX. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of ₹ 11,000 crores and planning to get listed in the next year.

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 20X1 and 31st March, 20X2. *₹ in lacs*

Particulars	*1st April, 20X1*	*31st March, 20X2*
Present value of benefit obligation	*1,400*	*1,580*
Fair value of plan assets	*1,140*	*1,275*

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For the financial year ended 31st March, 20X2, service cost was ₹ 55 lacs. The company made a contribution of an amount of ₹ 111 lacs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%.

You are required to -

(a) Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 20X2.

(b) Provide the journal entries in respect of amount(s) to be recognized.

Solution

(a) Extract of the Balance Sheet of RKA Private Ltd as at 31st March, 20X2

	₹ in lacs
Closing net defined liability (1,580 – 1,275) lacs	305

Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 20X2

Particulars	₹ in lacs
Service cost	55
Net interest ***(Refer W.N.1)***	21
Profit or loss	**76**
Other comprehensive income:	
Remeasurements ***(Refer W.N.2)***	80
Total	**156**

(b) Journal entries in the books of RKA Private Ltd

Particulars		₹ in lacs	₹ in lacs
Profit & Loss	Dr.	76	
Other comprehensive income	Dr.	80	
To Cash (Contribution)			111
To Net defined benefit liability ***(Refer WN 3)***			45

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Working Notes:

1. Computation of Net interest taken to the Statement of Profit or Loss

= Discount rate x Opening net defined benefit liability

= 8% x (1,400 – 1,140) lacs

= 8% x 260 lacs = 21 lacs (Rounded off to nearest lacs)

2. Computation of Remeasurements

Defined Benefit Obligation Account

Particulars	₹ in lacs	Particulars	₹ in lacs
To Balance c/d (given) (closing balance)	1,580	By Balance b/d (given) (opening balance)	1,400
		By Current Service Cost (given)	55
		By Interest on Opening Liability (1,400 x 8%)	112
		By Actuarial loss **(bal. figure)**	13
	1,580		**1,580**

OR

Statement to calculate Actuarial gain or loss on defined benefit liability:

Particulars	₹ in lacs
Opening balance of liability	1,400
Current service cost	55
Interest on opening liability (1,400 x 8%)	112
Actuarial loss (Bal. fig)	13
Closing balance of liability	**1,580**

Plan Assets Account

Particulars	₹ in lacs	Particulars	₹ in lacs
To Balance b/d (given) (opening balance)	1,140	By Balance c/d (given) (closing balance)	1,275

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To Bank Account (contribution for the year)	111		
To Surplus / Actual Return (bal. figure)	24		
	1,275		**1,275**

OR

Statement to calculate Actual return on plan assets:

Particulars	**₹ in lacs**
Opening balance of asset	1,140
Cash contribution	111
Actual return (Bal. fig)	24
Closing balance of asset	**1,275**

Net interest on opening balance of plan asset = ₹ 91 lacs (i.e. ₹ 1,140 lacs x 8%) (Rounded off to nearest lacs)

Hence there is a decrease in plan assets due to remeasurement for which computation is as follows:

Actual Return – Net interest on opening plan asset

= ₹ 24 lacs – ₹ 91 lacs = ₹ 67 lacs.

Net remeasurement would be computed as follows:

Actuarial loss on liability + Loss on return = ₹ 13 lacs + ₹ 67 lacs = ₹ 80 lacs.

3. Computation of increase/ decrease in net defined benefit liability:

Particulars	**₹ in lacs**
Opening net liability (₹ 1,400 lacs – ₹ 1,140 lacs)	260
Closing net liability ₹ 1,580 lacs – ₹ 1,275 lacs)	305
Increase in liability	**45**

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1.12 PRESENTATION

1.12.1 Offset

- An asset relating to one plan will be offset against a liability relating to another plan when, and only when, the entity:

  (a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

  (b) there is an intention either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

- The offsetting criteria are similar to those established for financial instruments in Ind AS 32, Financial Instruments: Presentation.

1.12.2 Current / Non-current distinction

This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

1.12.3 Components of defined benefit costs

This Standard does not specify how an entity should present current service cost and net interest cost on net defined liability (asset). An entity presents those components in accordance with Ind AS 1 Presentation of Financial Statements.

1.13 DISCLOSURE

An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

1.13.1 General

- An entity shall disclose information that:

  (a) explains the characteristics of its defined benefit plans and risks associated with them;

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(b) identifies and explains the amounts in its financial statements arising from its defined benefit plans; and

(c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

❖ If the disclosures provided in accordance with Ind AS 19 and other Ind AS are insufficient to meet the required objectives, additional information necessary to meet those objectives should be disclosed. For example, an entity might present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) between amounts owing to active members, deferred members, and pensioners;

(b) between vested benefits and accrued but not vested benefits; and

(c) between conditional benefits, amounts attributable to future salary increases and other benefits.

1.13.2 Characteristics of defined benefit plans and risks associated with them

An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:

(i) the nature of the benefits provided by the plan (e.g. final salary defined benefit plan or contribution-based plan with guarantee);

(ii) a description of the regulatory framework in which the plan operates (e.g. the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling); and

(iii) a description of any other entity's responsibilities for the governance of the plan (e.g. responsibilities of trustees or of board members of the plan).

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments (e.g. property), the plan may expose the entity to a concentration of property market risk; and

(c) a description of any plan amendments, curtailments and settlements.

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1.13.3 Explanation of amounts in the financial statements

❖ An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) the net defined benefit liability (asset), showing separate reconciliations for:

(i) plan assets;

(ii) the present value of the defined benefit obligation; and

(iii) the effect of the asset ceiling; and

(b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

❖ Each reconciliation listed above shall show each of the following, if applicable:

(a) current service cost;

(b) interest income or expense;

(c) remeasurements of the net defined benefit liability (asset), showing separately:

(i) the return on plan assets, excluding amounts included in interest in interest income or expense;

(ii) actuarial gains and losses arising from changes in demographic assumptions;

(iii) actuarial gains and losses arising from changes in financial assumptions; and

(iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest income or expense. An entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both;

(d) past service cost and gains and losses arising from settlements. If permitted by the Standard (i.e., entity need not distinguish between past service cost resulting from a plan amendment), past service cost and gains and losses arising from settlements need not be distinguished if they occur together;

(e) the effect of changes in foreign exchange rates;

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(f) contributions to the plan, showing separately those by the employer and by plan participants;

(g) payments from the plan, showing separately the amount paid in respect of any settlements; and

(h) the effects of business combinations and disposals.

❖ The fair value of the plan assets shall be disaggregated into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in Ind AS 113, *Fair Value Measurement*) and those that do not.

For example, and considering the level of general disclosures, an entity might distinguish between:

(i) cash and cash equivalents;

(ii) equity instruments (segregated by industry type, company size, geography etc);

(iii) debt instruments (segregated by type of issuer, credit quality, geography etc);

(iv) real estate (segregated by geography etc);

(v) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);

(vi) investment funds (segregated by type of fund);

(vii) asset-backed securities; and

(viii) structured debt.

❖ An entity shall disclose:

(a) the fair value of the entity's own transferable financial instruments held as plan assets; and

(b) the fair value of plan assets that are property occupied by, or other assets used by, the entity.

❖ An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

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1.13.4 Amount, timing and uncertainty of future cash flows

❖ An entity shall disclose:

(a) a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;

(b) the methods and assumptions used in preparing these sensitivity analyses and the limitations of those methods; and

(c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

❖ To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) a description of any funding arrangements and funding policy that affect future contributions;

(b) the expected contributions to the plan for the next annual reporting period;

(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

1.13.5 Multi-employer plans

If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements;

(b) a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan; and

(c) a description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan; or

(ii) the entity's withdrawal from the plan.

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(d) if the entity accounts for that plan as if it were a defined contribution plan in accordance with general principles applicable to liabilities and an entities own equity instruments, it shall disclose the following, in addition to the information required by (a)–(c) (refer section 1.13.2) and instead of the information required by paragraphs 139–147 (refer section 1.13.3 to 4):

(i) the fact that the plan is a defined benefit plan.

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) the expected contributions to the plan for the next annual reporting period.

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) an indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

1.13.6 Defined benefit plans that share risks between entities under common control

If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost as mentioned in section 1.6.3 above, all the information about the plan as a whole as discussed in sections 1.13.1 to 1.13.4.

(d) if the entity accounts for the contribution payable for the period as noted in section 1.6.3 above, the relevant information about the plan as a whole as mentioned in sections 1.13.1 to 1.13.4.

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(e) The information required by (c) and (d) above can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) that group entity's financial statements separately identify and disclose the information required about the plan; and

(b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

1.13.7 Disclosure requirements in other Ind AS

❖ Where required by Ind AS 24 *Related Party Disclosures,* an entity discloses information about:

(a) related party transactions with post-employment benefit plans; and

(b) post-employment benefits for key management personnel.

❖ Where required by Ind AS 37 *Provisions, Contingent liabilities and Contingent Assets*, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

1.14 OTHER LONG-TERM EMPLOYEE BENEFITS

❖ Other long-term employee benefits are those employee benefits which are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

❖ Other long-term employee benefits include, For example:

(a) long-term paid absences such as long-service or sabbatical leave;

(b) jubilee or other long-service benefits;

(c) long-term disability benefits;

(d) profit-sharing and bonuses; and

(e) deferred remuneration.

❖ The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. It is also there that

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the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. This method does not recognise remeasurements in other comprehensive income as required under the accounting required for post-employment benefits.

1.14.1 Recognition and measurement

❖ For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) service cost;

(b) net interest on the net defined benefit liability (asset); and

(c) remeasurements of the net defined benefit liability (asset).

❖ One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered.

Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

1.14.2 Disclosure

Though this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures.

For example:

a. Where the expense resulting from such benefits is material and so would require disclosure in accordance with Ind AS 1.

b. When required by Ind AS 24, an entity discloses information about other long-term employee benefits for key management personnel.

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1.15 TERMINATION BENEFITS

- This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination of employment rather than employee service.
- Termination benefits results from either:
  (a) an entity's decision to terminate the employment or
  (b) an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.
- Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits.
- Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.
- The form of the employee benefit does not determine whether it is provided in exchange for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include
  (a) enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.
  (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.
- Indicators that an employee benefit is provided in exchange for services include the following:
  (a) the benefit is conditional on future service being provided (including benefits that increase if further service is provided).
  (b) the benefit is provided in accordance with the terms of an employee benefit plan.

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- Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.
- Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

1.15.1 Recognition

- An entity is required to **recognise** a liability and expense for termination benefits **at the earlier of the following dates**:
  - (a) when the entity can no longer withdraw the offer of those benefits; and
  - (b) when the entity recognises costs for a restructuring which is within the scope of Ind AS 37 and involves the payment of termination benefits.
- For **termination benefits** payable **as a result of an employee's decision to accept an offer of** benefits in exchange for the **termination of employment**, the **time when an entity can no longer withdraw the offer** of termination benefits **is the earlier of**:
  - (a) when the employee accepts the offer; and
  - (b) when a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect.
- For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
  - (a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

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(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

❖ Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.

1.15.2 Measurement

An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) If the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(b) If the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

Because termination benefits are not provided in exchange for service, the concepts relating to the attribution of the benefit to periods of service as discussed for defined benefit plans are not relevant.

Example 4: On Termination Benefits

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of ₹ 30,000. Employees leaving before closure of the factory will receive ₹ 10,000.

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There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are ₹ 3,200,000 (i.e. (20 × ₹ 10,000) + (100 × ₹ 30,000)). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is ₹ 10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e. all employees will leave employment when the factory closes). Therefore, the entity recognises a liability of ₹ 12,00,000 (i.e. 120 × ₹ 10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of ₹ 2,00,000 (i.e. ₹ 20,00,000 ÷ 10) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

1.15.3 Disclosure

This Standard does not require specific disclosures about termination benefits, other Ind AS may require disclosures.

For example:

a. where required by Ind AS 24 an entity discloses information about termination benefits for key management personnel.

b. Ind AS 1 requires disclosure of employee benefits expense.

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1.16 IND AS 19 — THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION

1.16.1 Background

- Ind AS 19 limits the measurement of a net defined benefit asset to the lower of the surplus in the defined benefit plant and asset ceiling (i.e. the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan). Questions have arisen about when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.
- Minimum funding requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.
- Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

1.16.2 Scope

This Appendix applies to all post-employment defined benefits and other long-term employee defined benefits. For the purpose of this Appendix, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

1.16.3 Issues

The issues addressed in this Appendix are:

(a) when refunds or reductions in future contributions should be regarded as available in accordance with the definition of the asset ceiling.

(b) how a minimum funding requirement might affect the availability of reductions in future contributions.

(c) when a minimum funding requirement might give rise to a liability.

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1.16.4 Principles

1.16.4.1 Availability of a refund or reduction in future contributions

- An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.
- An economic benefit is available in the form of a refund or a reduction in future contributions if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled.
- The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.
- In accordance with Ind AS 1, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the balance sheet. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

1.16.4.2 The economic benefit available as a refund

1. The right to a refund

- A refund is available to an entity only if the entity has an unconditional right to a refund:

  (a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (e.g., in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or

  (b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or

  (c) assuming the full settlement of the plan liabilities in a single event (i.e., as a plan wind-up).

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- An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.
- If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset.

2. Measurement of the economic benefit

- An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs.

  For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

- In measuring the amount of a refund available when the plan is wound up, an entity shall include the costs to the plan of settling the plan liabilities and making the refund.

  For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

- If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.

1.16.4.3 The economic benefit available as a contribution reduction

- The economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity; and if there is no minimum funding requirement for contributions relating to future service. The future service cost to the entity excludes amounts that will be borne by employees.
- An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future can be assumed by the entity until the plan is amended and shall assume a stable workforce in the future unless the entity makes a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction.

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1.16.4.4 The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

❖ An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover

(a) any existing shortfall for past service on the minimum funding basis; and

(b) future service.

♦ Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability.

❖ If there is a minimum funding requirement for contributions relating to the future service, the economic benefit available as a reduction in future contributions is the sum of:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e., paid the amount before being required to do so); and

(b) the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

❖ An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment. An entity shall use assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period. The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.

❖ When an entity determines the amount, if the future minimum funding requirement contributions for future service exceed the future service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions.

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1.16.4.6 When a minimum funding requirement may give rise to a liability

- If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.
- To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected.

1.17 EXTRACTS OF FINANCIAL STATEMENTS OF LISTED ENTITY

Following is the extract from the financial statements of the listed entity 'Bharti Airtel Limited' for the financial year 2021-2022 with respect to 'Employee Benefits' and its accounting policy thereon.

25.2 Employee benefits

The details of significant employee benefits are as follows:

	For the year ended March 31,2022		For the year ended March 31,2021	
	Gratuity	Compensated absences	Gratuity	Compensated absences
Obligation:				
Balance as at beginning of the year	1,949	774	1,852	724
Current service cost	270	162	257	167
Interest cost	132	53	128	50
Benefits paid	(395)	(170)	(256)	(102)
Transfers	(15)	(9)	(29)	(21)
Remeasurements	33	(71)	(3)	(44)
Present value of obligation	**1,974**	**739**	**1,949**	**774**
Current portion	528	739	609	774
Non-Current portion	1,446	-	1,340	-

As of March 31, 2022, expected contributions for the next annual reporting period is ₹446.

Amount recognised in Other Comprehensive Income

	For the year ended March 31, 2022	For the year ended March 31, 2021
Experience losses / (gains)	62	(18)
Losses from change in demographic assumptions	22	9
(Gains) / losses from change in financial assumptions	(51)	6
Remeasurements on defined benefit plans	**33**	**(3)**

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ACCOUNTING POLICY

The Company's employee benefits mainly include wages, salaries, bonuses, defined contribution plans, defined benefits plans, compensated absences, deferred compensation, and share-based payments. The employee benefits are recognized in the year in which the associated services are rendered by the Company employees. Short-term employee benefits are recognized in the Statement of Profit and Loss at undiscounted amounts during the period in which the related services are rendered.

i. Defined Contribution plans

The contributions to defined contribution plans are recognized in profit or loss as and when the services are rendered by employees. The Company has no further obligations under these plans beyond its periodic contributions.

ii. Defined benefits plans

In accordance with the local laws and regulations, all the employees in India are entitled for the Gratuity plan. The said plan requires a lump-sum payment to eligible employees (meeting the required vesting service condition) at retirement or termination of employment, based on a pre-defined formula.

The Company provides for the liability towards the said plans on the basis of actuarial valuation carried out quarterly as at the reporting date, by an independent qualified actuary using the projected-unit-credit method.

The obligation towards the said benefits is recognized in the Balance Sheet, at the present value of the defined benefit obligations. The present value of the said obligation is determined by discounting the estimated future cash outflows, using interest rates of government bonds.

The interest expenses are calculated by applying the above-mentioned discount rate to defined benefits obligations. The interest expenses on the defined benefits obligations are recognized in the Statement of Profit and Loss. However, the related re-measurements of the defined benefits obligations are recognized directly in the other comprehensive income in the period in which they arise. The said re-measurements comprise of actuarial gains and losses (arising from experience adjustments and changes in actuarial assumptions). Re-measurements are not re-classified to the Statement of Profit and Loss in any of the subsequent periods.

a. Other long-term employee benefits

The employees of the Company are entitled to compensated absences as well as other long-term benefits. Compensated absences benefits comprise of encashment and availment of leave balances that were earned by the employees over the period of past employment.

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The Company provides for the liability towards the said benefits on the basis of actuarial valuation carried out quarterly as at the reporting date, by an independent qualified actuary using the projected-unit-credit method. The related re-measurements are recognized in the Statement of Profit and Loss in the period in which they arise.

(Source: Annual Report 2021-2022 - 'Bharti Airtel Limited')

1.18 SIGNIFICANT DIFFERENCES IN IND AS 19 VIS-À-VIS AS 15

S. No.	Particulars	Ind AS 19	AS 15
1.	*Constructive Obligations*	In Ind AS 19 (paragraph 4(c), obligations arising from informal practices are referred to as constructive obligations	In AS 15 (paragraph 3(c) such obligations are simply referred to as obligations.
2.	*Definition of Employee*	Ind AS 19 the term 'employee' includes directors whether they are whole-time or not. (Paragraph 7 of Ind AS 19)	As per AS 15, the term 'employee' includes whole-time directors
3.	*Other Definitions*	Definitions of short-term employee benefits, other long-term employee benefits, and past service cost is different in Ind AS 19 (Paragraph 8 of Ind AS 19)	Different definitions are given in AS 15
4.	*Contractual Agreement between a Multi-employer Plan and its Participants*	Ind AS 19 deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). (Paragraph 37 of Ind AS 19)	AS 15 does not deal with it

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5.	*Participation in a Defined Benefit Plan Sharing Risks Between Various Entities under Common Control*	As per Ind AS 19, participation in a defined benefit plan sharing risks between various entities under common control is a related party transaction for each group entity and some disclosures are required in the separate or individual financial statements of an entity. (Paragraph 42 of Ind AS 19)	AS 15 does not contain similar provisions
6.	*Recognition of Past Service Cost*	As per Ind AS 19, past service cost (including curtailments) is recognised as an expense at the earlier of when the plan amendment or Curtailment occurs; and when the entity recognizes related restructuring costs or termination benefits.	As per AS 15, past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If already vested, recognised as an expense immediately. Entities recognise a curtailment when it occurs. However, when curtailment is linked with a restructuring, it is accounted for at the same time as the related restructuring.
7.	*Involvement of a qualified actuary*	Para 59 of Ind AS 19 encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. (Paragraph 59 of Ind AS 19)	AS 15 neither requires nor specifically encourage the same.
8.	*Actuarial valuation*	Detailed actuarial valuation to determine the present value of net defined benefit liability (asset) shall be performed with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would have been	Detailed actuarial valuation to determine the present value of defined benefit obligation is carried out at least once every 3 years and fair value of plan assets are determined at each balance sheet date.

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		determined at the end of the reporting period. Ind AS 19 does not define sufficient regularity.	
9.	*Recognition of Actuarial Gains and Losses*	Ind AS 19 requires that the same shall be recognised in other comprehensive income and not reclassified to profit or loss in a subsequent period.	AS 15 requires recognition of actuarial gains and losses immediately in the profit and loss
10.	*Financial Assumptions*	Ind AS 19 makes it clear that financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled. (Paragraph 80 of Ind AS 19)	AS 15 does not clarify the same
11.	*Discounting of Post-employment Benefit Obligations*	As per Ind AS 19, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.	As per AS 15, the rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the balance sheet date on government bond.

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12.	*Timing of Recognition of Termination Benefits*	As per Ind AS 19 para 165, an entity shall recognise a liability and expense for termination benefits at the earlier of the following dates: (a) when the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that Employee Benefits within the scope of Ind AS 37 and involves the payment of termination benefits.	As per AS 15 para 134, an enterprise should recognise termination benefits as a liability and an expense when, and only when: (a) the enterprise has a present obligation as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.
13.	*Guidance on Interaction of Ceiling of Asset Recognition and Minimum Funding Requirement*	Ind AS 19 gives guidance on the interaction of ceiling of asset recognition and minimum funding requirement in the case of defined benefit obligations. (Appendix B of Ind AS 19)	Such guidance is not available in AS 15.

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TEST YOUR KNOWLEDGE

Questions

1. An entity has 100 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar 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 (LIFO basis).

   At 31st March, 20X1, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 20X1-20X2 and that the remaining eight employees will take an average of six and a half days each.

   The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 20X1 (one and a half days each, for eight employees).

   Comment whether the entity would require to recognize any liability in respect of leaves.

2. A plan provides a monthly pension of 0.3% of final salary for each year of service. The pension is payable from the age of 65.

   Determine the current service cost.

3. A plan pays a benefit of ₹ 140 for each year of service, excluding service before the age of 25. The benefits vest immediately.

   Compute the benefit to be attributed before the age of 25 and after 25?

4. B Pvt. Ltd. has a post-employment medical plan which will reimburse 20% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service.

   State how would you measure the benefit to be attributed for the employee service for the last 20 years, 10 and 20 years and within 10 years.

5. Cisca Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in 20X0-20X1. As per the company's policy, the employees are given 35 days of privilege leaves (PL), 15 days of sick leaves (SL) and 10 days of casual leaves. Out of the total PL and sick leaves, 10 PL leaves and 5 sick leaves can be carried forward to next year. On the

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basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Also the company has been incurring profits since 20XX. It has decided in 20X0-20X1 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Cisca Pvt. Ltd. is expected to be around 3.5%. The profits earned during 20X0-20X1 is ₹ 2,000 crores.

Cisca Pvt. Ltd. has a post-employment benefit plan also available which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 100 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 20 crores to its employees in 20X0-20X1. State what would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Cisca Pvt. Ltd. Also state what would be the treatment, if the contribution paid from defined contribution plan exceeds the contribution due. Further, determine what would be the accounting if the payment from defined contribution plan does not fall due within 12 months from the end of accounting period.

6. OPQ Ltd is a listed company having its corporate office at Nagpur. The company has a branch office at Chennai. The company has been operating in Indian market for the last 10 years.

The company operates a pension plan that provides a pension of 2.5% of the final salary for each year of service. The benefits become vested after seven years of service.

On 1st April, 20X8, the company increased the pension to 3% of the final salary for each year of service starting from 1st April, 20X1. On the date of the improvement, the present value of the additional benefits for service from 1st April, 20X1 to 1st April 20X8 was as follows:

- Employees with more than seven years' service on 1st January 20X8 – ₹ 2,75,000
- Employees with less than 7 years of service – ₹ 2,21,000 (average 4 years to go).

Provide the accounting treatment in this case.

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Answers

1. At 31st March, 20X1, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 20X1-20X2 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 20X1 (one and a half days each, for eight employees).

Therefore, the entity would recognize a liability equal to twelve days of sick pay.

2. Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.3% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit.

The present value of the defined benefit obligation is the present value of monthly pension payments of 0.3% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

3. No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of ₹ 140 is attributed to each subsequent year.

4. As per Ind AS 19, the benefit will be attributed till the period the employee service will lead to no material amount of benefits. And service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity would attribute benefit on a straight-line basis. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5% (i.e. 50% divided by 20) of the present value of the expected medical costs.

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 2% (20 % divided by 10) of the present value of the expected

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medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

5. (i) Cisca Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 20X0-20X1 as short-term compensated absences.

(ii) Cisca Pvt. Ltd. will recognise ₹ 70 crores (2,000 x 3.5%) as a liability and expense in its books of account.

(iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service.

Under Ind AS 19, the amount of ₹ 80 crores will be recognised as a liability (accrued expense), after deducting any contribution already paid (100-20) and an expense in the statement of profit and loss. However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense).

Since the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

6. OPQ Ltd increased the pension to 3% of the final salary for each year of service starting from 1st April, 20X1 to 1st April, 20X8.

The company would recognize the total amount of ₹ 4,96,000 (i.e. ₹ 2,75,000 + ₹ 2,21,000) immediately, as for the purpose of recognition it does not make any difference as to whether the benefits are already vested or not.

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