

AS 15

EMPLOYEES BENEFITS (EB)

OBJECTIVE

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an enterprise to recognize:

- ▶ A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- ▶ An expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

APPLICABILITY

With effect from accounting period commencing on or after 1.04.2006

Level I Enterprises

in entirety

Other than level I
Enterprises having 50
or more employees

para 11 to 16(STEB), 46 and
139(Discounting) not
applicable, para 50 to
116(DBO) limited
applicability

less than 50 employees

- DO-
No need for actuarial
valuation.

DEFINITIONS AND CONCEPTS

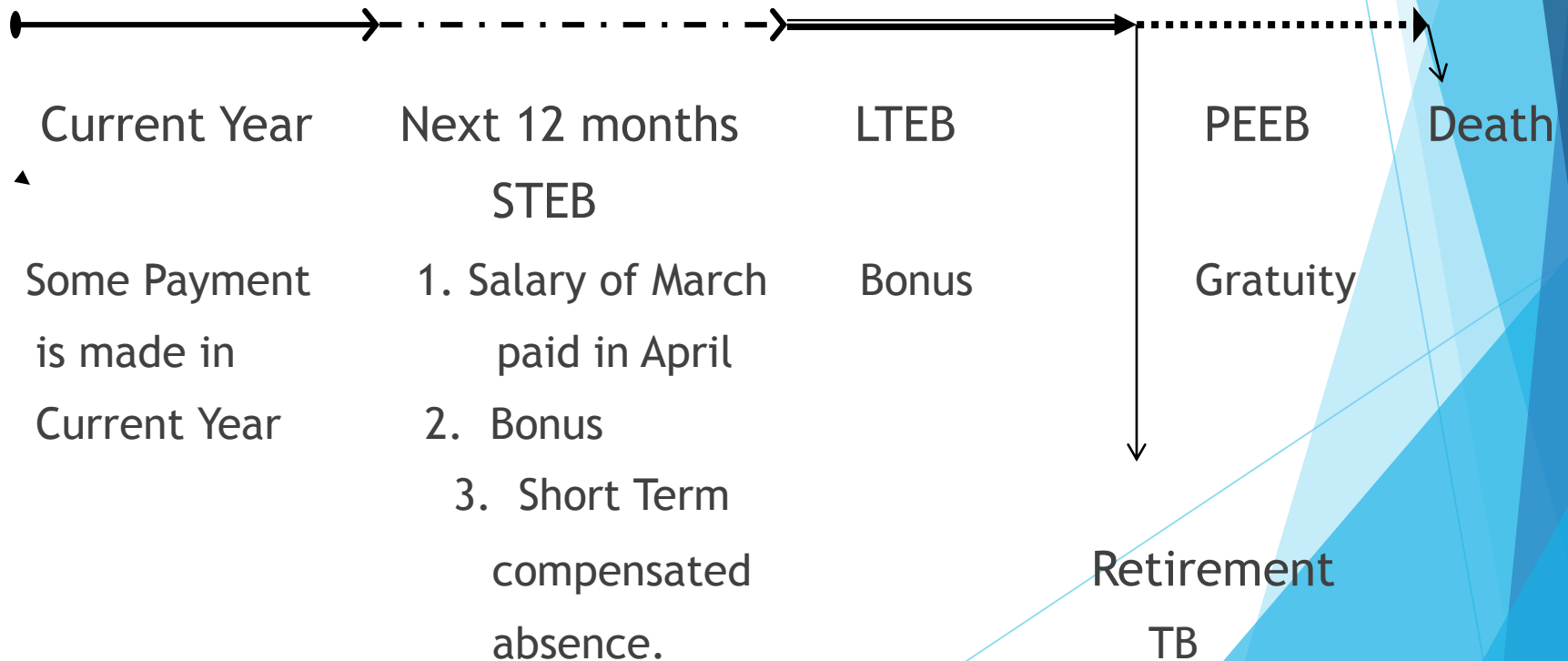
1. Employee Benefit means **all forms** of consideration paid to **employees, spouse** of employees **for** services rendered by employees, in relation to any **employer employee agreement**.

2. Employee can be :
 - ▶ Temporary
 - ▶ Permanent
 - ▶ Part time
 - ▶ Fulltime

Employees exclude Contract Labour.

3. Employees benefits can be :

- i. Short Term Employees Benefit. (STEB)
- ii. Long Term Employees Benefit. (LTEB)
- iii. Termination Benefit (TB)
- iv. Post Employment Employees Benefit. (PEEB)



Short Term Employees Benefits

- ▶ These benefits fall due wholly within 12 months from the end of period, to which employee service relates.
- ▶ These are not discounted.
- ▶ These will be treated as accrued expense (if not paid, less paid) or as prepaid assets (if paid more).
- ▶ Eg: Salary, Bonus, Short term compensated balance etc.

Journal Entry :

- i) Salary of March Payable in April :

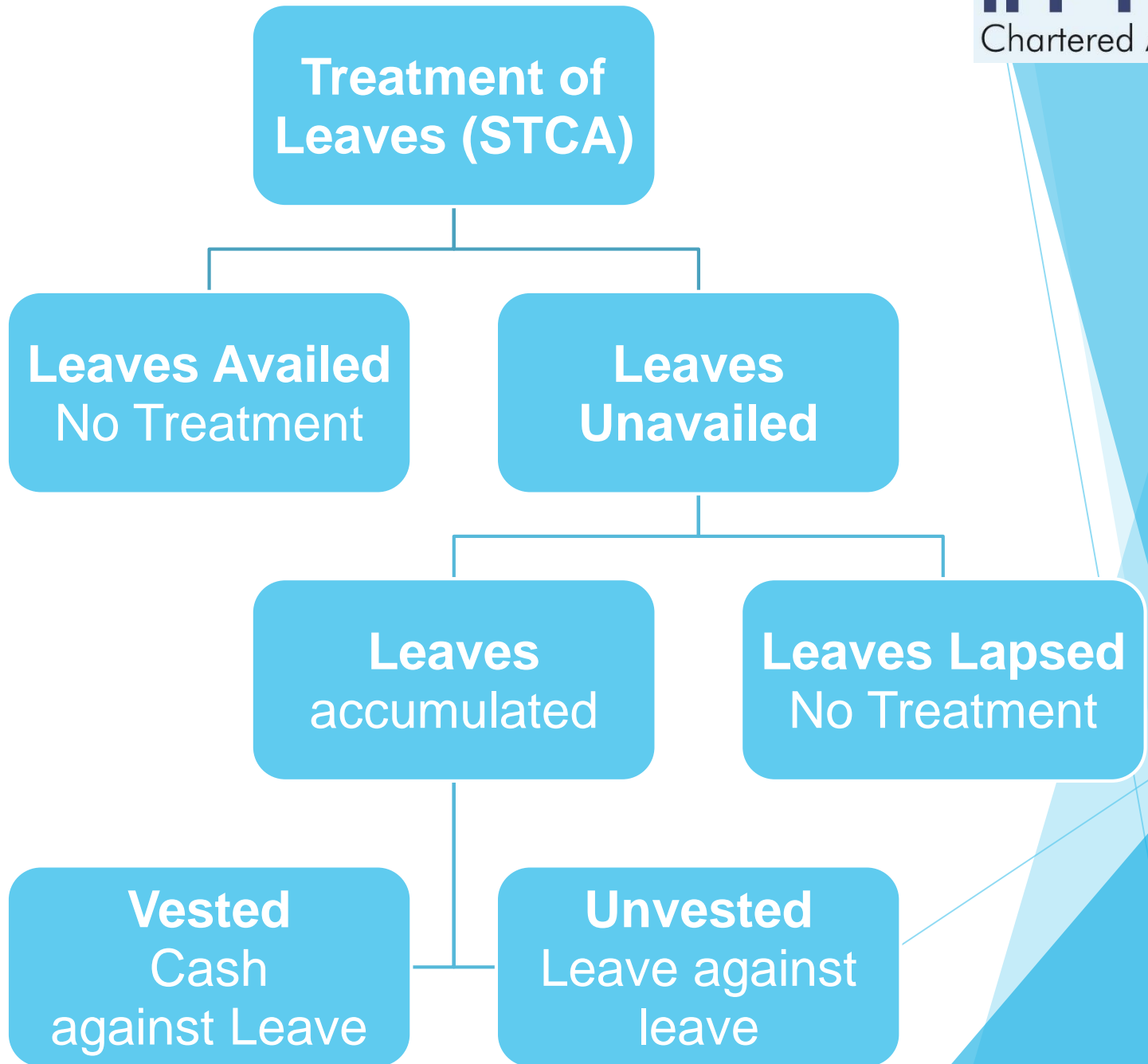
Salary a/c Dr
 To Salary Payable a/c
(Being Expenses recorded)

ii) Bonus of Current Year payable within next 12 month.

Salary / Bonus / E.B a/c Dr
To Salary Payable a/c
(Being Bonus Recorded)

iii) Short Term Compensated Absence.

Salary a/c Dr (Amount next slide)
To Salary Payable a/c
(Being STCA recorded)



Amount = Value of leaves whose compensation is to be paid

Value of Vested Leaves = Vested Leaves * Salary Per Day

Value of Unvested Leaves = Unvested Leaves * Salary Per Day * Probability or Possibility

Note :

Treatment of STCA is not required by SMC and SM Entities.

DISCLOSURE

- ▶ Although this Standard does not require specific disclosures about short-term employee benefits, other Accounting Standards may require disclosures.
- ▶ For example, where required by AS 18 Related Party Disclosures an enterprise discloses information about employee benefits for key management personnel.

Termination Benefit

- ▶ Benefit payable due to:
 1. Enterprise's decision to terminate, or
 2. Employees's decision to accept VRS

- ▶ Should recognize as a liability and as an expense when, and only when-
 1. Present obligation from past event.
 2. Outflow of resources to settle the liability.
 3. Reliable estimate can be made.

ACCOUNTING TREATMENT

- ▶ Any amount of expense recognized in financial statement will be dealt as follows :
 1. Incurred beyond 1/4/2010: **Fully written off.**
 2. Incurred up to 31/3/2010: Such expenses can be **deferred** as per its previous policy.

DISCLOSURES

- ▶ Uncertainty about no.of employee accepting termination- AS 29 Provisions, Contingent Liabilities and Contingent Assets
- ▶ As required by AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.
- ▶ AS 18, Related Party Disclosures an enterprise discloses information about termination benefits for key management personnel.

LTEB & PEEB

There are **two types** of benefits that can be given in LTEB and PEEB. There can be :

- i) Defined Contribution Plans
- ii) Defined Benefit Plans

Defined Contribution Plans :

- ▶ These are those plans **where employee and employer contribute towards any benefit.**
- ▶ The enterprise's obligation is **limited to the amount that it agrees to contribute** to the fund.

E.g. Provident Fund or Contribution for Pension

ACCOUNTING TREATMENT

- ▶ Accounting for DCP is straightforward because the reporting enterprise's obligation for each period is determined by the amounts to be contributed for that period.
- ▶ Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.
- ▶ If contribution don't fall due wholly within 12 months, they should be discounted.

DISCLOSURE

- ▶ An enterprise should disclose the amount recognized as an expense for defined contribution plans.
- ▶ In case of over payment as prepaid asset and if under paid as O/S Liability.
- ▶ Where required by AS 18 Related Party Disclosures an enterprise discloses information about contributions to defined contribution plans for key management personnel.

Defined Benefit Obligations (DBO)

- ▶ These are those benefits which are allotted to Employees without any contribution from them.
- ▶ The enterprise's obligation is to provide the agreed benefits to current and former employees; and
- ▶ Actuarial risk (that benefits will cost more than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the enterprise

E.g. Gratuity, Pension, etc.

ACCOUNTING TREATMENT

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

ACCOUNTING TREATMENT

- ▶ Estimation of liability of Benefits: Using Actuarial assumptions (Demographic-employee turnover & mortality etc & financial variables- discount rate, future increase in salary, etc)
- ▶ Discounting to Determine present Value (A) and current service cost: Using Projected Unit credit Method.
- ▶ Determine Fair Value of Plan Assets (B).
- ▶ Determining the total amount (net) of actuarial gains and losses.
- ▶ Past service cost in case of introduction and change in plan.
- ▶ Curtailment and settlement gain or loss.

DISCLOSURE

A) BALANCE SHEET:

- ▶ Difference of PV of benefit and Fair value of Plan Asset is to be carried to Balance Sheet as Defined Benefit Liability

B) PROFIT & LOSS A/C

- ▶ Current Service Cost
- ▶ Past Service Cost
- ▶ Actuarial gain or losses
- ▶ Expected Return on plan asset
- ▶ Effect of any curtailment or settlement
- ▶ Interest Cost

1. **Current Service Cost:** Increase in PV of DBO resulting from employee service in current period.
2. **Past Service Cost:** Changes in PV of DBO, related to prior periods employee service, due to 'introduction of' or 'changes' to post employment benefits or other LTEB.
3. **Actuarial gain or loss:** Due to either change in PV of DBO or changes in FV of planned asset.
4. **Expected return on plan asset:** Interest, dividend, other revenue etc less of administration cost of the plan or tax payable.
5. **Curtailement:** Either when material reduction in no. of employees or amend the terms of plan resulting to No benefits or reduced benefits.
6. **Settlement:** Entering a transaction to eliminate all the further obligations.

OTHER LTEB

- Other than PEEB and TB, which do not fall due wholly within 12 months.
- It includes:
 1. Long Term Compensated Balance.
 2. Jubilee or other long service benefits.
 3. Long term disability benefits.
 4. Profit sharing bonuses payable after 12 months.
 5. Deferred compensation etc.

Exemption to SMC and SME in LTEB /PEEB

- ▶ SMC are not required to discount allocated benefits in LTEB.
- ▶ SMC Actuary Report can be obtained for calculation of LTEB/ PEEB.
- ▶ SMEs : Entity having employees :

More than 50	Upto or Less than 50
Discounting not required	Discounting not required
Actuary Report can be obtained	Not Required
	Rational method is used

THANK YOU



BY:

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