AS 15 → Employee Benefits

1. Short term employee Benefits
2. Post Employment Benefits
3. Other long term Benefits
4. Termination Benefits

AKSIA
> Book Exp in the year in which it accrues, Payment se humko farak nahi podta.

* Employee

The term employee is not defined under AS 15 but states that employee may provide services to an entity on a full time, part time, permanent, casual or temporary basis.
For the purpose of this standard, employees include directors & other management personnel.

I] Short term employee Benefits

– Short term employee Benefits (other than termination Benefit) are payable within 12 months from the end of period in which service is rendered.

1. Salary / Wages

J.E.
1] If paid
Sal / wages A/c Dr → EBE (P/L)
To C/B

2] If accrued, But Not paid
Sal Exp A/c Dr → P/L
To o/s salary (Payable) → Liab

2. Bonus

Co. BBV Pvt Ltd → AK Hai Bhaisahaab

Profit target X1-X2 → Bonus 2% of Total profit

(Bonus Accrues in X1-X2, payment in X2-X3)

X1-X2
Bonus Exp A/c Dr → P/L
To Bonus Payable → Liab

3. leave compensation

↓ Next page

Later when you pay off your o/s

o/s Salary (Payable)
To C/B

X2-X3

Bonus Payable
To C/B

Leave Compensation (Paid leaves)

1) **Accumulating** (c/f is permitted)
   - **Vesting** (Can be encashed)
   - **Non-Vesting** (cannot be encashed but such leaves will be c/f to Next Year)

2. **Non-Accumulating** (c/f is Not permitted)
   ⇓
   Unused leaves will lapse.
   ⇓
   No A/c'ing treatment

eg X1-X2 (40 leaves → 10 availed, → 30 days c/f) → payment next year.
⇓
C.Y. 2y ado meunat

X1-X2
↓
Employee earns leaves in X1-X2 (i.e. payment has accrued)

J.E. Leave Comp Exp A/c Dr xx (→ P/L)
To Payable / o/s xx (↳ liab)

X2-X3 Payable xx
To C/B xx

Example → Non vesting (X1-Y1)

A/c (Poor Employee) → 12 months salary = 6 crores p.a. (50L per month)

Every year → 40 leaves (10 days avail, 30 days leave Bal) → next year c/f (cannot encash)

(X1-X2) Sally Exp A/c Dr 6 crores

To c/B 6 crores

(X1-Y1) leave Comp Exp A/c (p/c) Dr 50L

To Prov for leave Comp (Liab) 50L

(X2-X3) Next year Emp (C.Y = 40 days, N.Y = 30 days) 70 days

full leave Bal of 70 days utilized.

Salary Exp A/c Dr 5.5cr (Bal).

Prov for leave Comp Dr 50L

To c/B 6cr

Case B: Vesting (Example same as above)

X1-X2 Sally Exp A/c Dr 6 crores

To c/B 6 crores

(X1-Y1) leave Comp Exp A/c (p/c) Dr 50L

To Payable for leave Comp (Liab) 50L

X2-X3 (C.Y. → 40 days ⟶ availed full 40 days)
P.Y → 30 days ⟶ encash)

Sal & Exp 6cr
TO CLB 6cr.

Payable A/c Dr 50L
TO CLB 50L

Sal & Exp 6cr
Payable 50L
TO CLB 6.5cr

Non vesting	Vesting
X2-X3 → He avails extra leaves ∴ Payment total 6cr he mila	X2-X3 → He does not avail extra leaves, instead he encashes it ∴ Payment total 6.5cr mila. 6cr Salary 0.5cr ⇓ leave comp. payment

Note: When Booking Exp & crab for leave compensation, we also have to consider estimates regarding how many leaves employee will be able to utilize in future.

Eg A/c has earned 30 leaves balance in C.Y. . Salary per day 1000. But co. expects that A/c will be able to utilize only 20 days of leaves in future from leaves earned in C.Y.

Soln: In above case company will book leave comp Exp & prov only for 20 days leaves. J.E. Leave comp Exp A/c Dr 20000
TO Prov for leave comp. 20000 } (20 days x ₹1000)

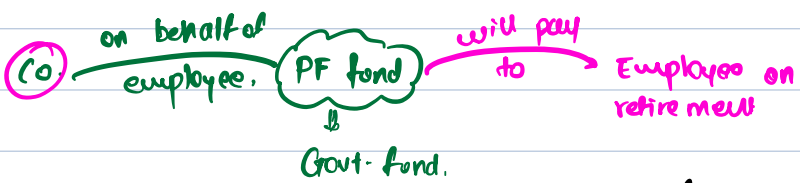
II] Post Employment Benefits (Retirement Benefits)

→ Post Employment Benefits are those benefits which are paid to the employee on the event of retirement from the company.

→ Post employment Benefits can be of 2 types

- Defined Contribution Plan (DCP)
- Defined Benefit Plan (DBP)

i] DCP → These are post employment benefit plans under which an enterprise pays fixed contribution to a seperate fund & that fund will provide the benefit to the employee on retirement.
(eg: Provident fund)



MCQ

(Actuarial risk / Investment risk)

After contribution by co. to the fund, there is no risk on the company.
(agar PF fund dob gaya toh employee ka nuksaan, co will not do anything)

eg: PF (Employer's cont) = ₹80000 for the year X1-X2

Case ① It is accrued in X1-X2 & it is to be paid on 15-04-X2

X1-X2 PF Exp 80000
TO PF Payable 80000

15-04-X2 PF Payable 80000
TO CLB 80000

Case ② It is accrued in X1-X2, it is to be paid on 01/04/X3. (D.F@ 10%)

X1-X2 PF Exp 72727 } @ PV.
31.3.X2 TO PF Payable 72727

31/3/X2 ↓ Accrued @ PV of 80000 (80000 / (1.10)) 72727

01/04/X3 ↓ Payment ↓ 80000

1yr Int.

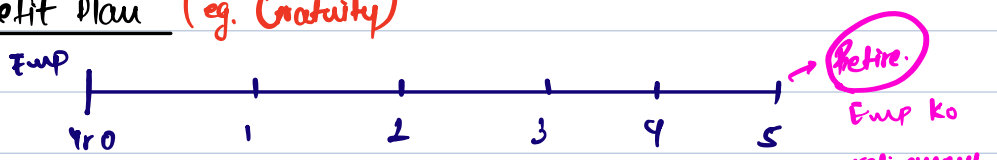
31/3/X3 (72727 × 10%) = 7273
Int Exp → Plc 7273
TO PF Payable 7273
↳ Liab

Int Payable @ Int for 1yr (unwinding / inflation / Interest)

31/3/X3 Total Liab (72727 + 7273) = 80000

01/04/X3 PF Payable A/c Dr 80000
TO CLB 80000

* **Defined Benefit Plan** (eg. Gratuity)



Emp ko retirement ka paisa kaun dega ⇓ Fund ? No. Co → YES.

There are post employment benefit plans other than Defined Contn plan. In defined Benefit plans., the risk (actuarial risk / investment risk) falls on the company.

MCQ

Important terms for Def. Ben. Plan (Accounting done as per PUCM) ⇓ (Projected unit credit method) MCQ

1. Current Service Cost → PL
2. Interest Cost → PL
2. Defined Benefit obligation (DBO) → Liab
4. Actuarial Gain / loss on DBO → PL
5. Past Service Cost (Vested / Unvested) → PL
6. Plan Assets → BS (Asset)
7. Expected Return / Int Income on Plan Assets → PL
8. Actuarial Gain / loss on Plan Assets
9. Curtailment / Settlement.

Eg: BBV Pvt Ltd has an employee AK who has joined the company in current year. Co. provides Gratuity payment on service completion of 3 years.

Gratuity will be paid as per the following calculation:

Gratuity = 1% x Final drawn salary p.a. x No. of completed years of service

AK Sal = 10L p.a.

No. of years expected to work with Co = 3yrs.

Expected increment p.a = 10%.

Disc factor = 10%.

Soln: Gratuity = 1% x Final drawn salary p.a x No. of completed years of service.

= 1% x 12,10,000 x 3yrs.

(10L + 10% + 10%)

3yrs mein naya d baar increment

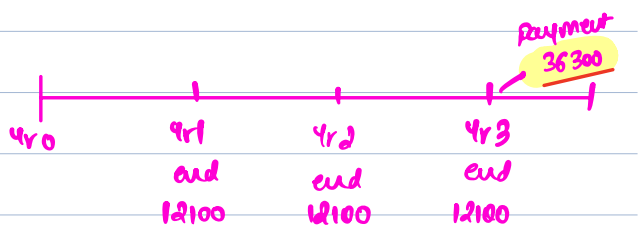
(1)

= 36300 → To be paid after 3yrs.

→ Accrue over the period of 3years.

Gratuity each year = 36300 / 3yrs.

(2) = 12100 p.a.



③ Current Service Cost

Calculation of Exp each year @ PV

$\left(\frac{1}{1.10}\right)$ press = 2 times

Yr end	Exp accrued		Df @ 10%	PV
1	12100	(Payable after 2 yrs)	0.826	10000
2	12100	(Payable after 1 yr)	0.909	11000
3	12100	(Payable after 0 year)	1	12100

④ Calculation of Interest Each Year on DBO

Yr	Opn Bal	Int @ 10%	Exp Booked in C.J.	Cls (DBO)
1	-	-	10000	10000
2	10000	1000	11000	22000
3	22000	2200		

J.E-

4r 1end Current Service Cost (CSC)

~~Gratuity Exp~~ 10000

To ~~Gratuity Payable~~ 10000

Defined Benefit obligation (DBO)

4r 2end Int Exp 1000

To DBO 1000

4r 2end CSC 11000

To DBO 11000

4r 3end Int Exp 2200

To DBO 2200

4r 3end CSC 12100

To DBO 12100

After 3 years

payment of DBO A/c Dr 36300

Gratuity To CIB 36300

Illus 9 (CLDR)

① Total Defined Benefit Plan Amt

② Defined Benefit Amt p.a.

③ Calculate of PV of CSC

④ Calculation of Int cost each year.

as per ques take 5 increments

① Total Defined Benefit obligation = 25% × last drawn salary × No. of completed years of service

= 25% × 24,00,000 × 5 yrs.

= 30,00,000. → To be paid after 5 yrs; Accrue over the period of 5 yrs.

last drawn salary = 14,90,210 + 10% + 10% + 10% + 10% + 10%

(or)

1490210 × 110% × 110% × 110% × 110% × 110%

= 24,00,000 approx

② Defined Benefit cost p.a. = $\frac{30,00,000}{5 \text{ yrs}}$

= 6,00,000 p.a.

③ Calculation of Current Service Cost p.a.

1/1.08 press = 4 times

Yr			D.F@ 8%	PV (CSC)
1	600000	(payable after 4 years)	0.735	441000
2	600000	(— 3 yrs)	0.794	476400
3	600000	(— 2 yrs)	0.857	514200
4	600000	(— 1 yr)	0.926	555600
5	600000	(— 0 yrs)	1	600000

④ Calculation of Interest cost each year.

Year	Opn Bal of DBO	Int @ 8%	C.y Exp (CSC)	CL (DBO)
1	–	–	441000	441000
2	441000	35280	476400	952680
3	952680	76214	514200	1543094
4	1543094	123448	5,55,600	22,22,142
5	22,22,142	1,77,771	600000	29,99,913

(+)87 ↓ rounding off

30l approx } 87 Diff

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4. Actuarial Gain / loss on DBO

↳ There are gains / loss in DBO which result from changes in estimates (eg change in % increment, Completed years of service, Disc Rate, No. of emp etc.)

1) PV of DBO increases

Actuarial loss on DBO (PL) EBE

To DBO (↑ liab)

2) PV of DBO decreases

DBO A/c Dr (↓ liab)

To Actuarial Gain on DBO (PL)

↳ ~~Other~~ EBE

~~Income~~ (-ve)

---

5. Past Service Cost

↳ This results from Plan Amendment (eg: Gratuity % increases from 1% to 2%. from 25% to 30%.)

The Balance of DBO will also increase due to Plan Amendment.

decrease is rare

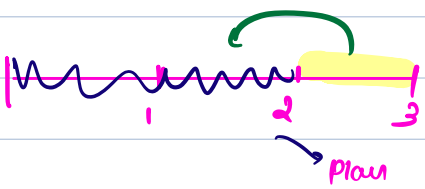
eg. Due to Plan Amendment DBO recalculation is revised & it resulted in a increase of ₹ 10L (vested 7L, unvested 3L)

Vested PSC (PL) 7L

Unvested PSC (Recognise in Asset) 3L & write off over the remaining period.

TO DBO 10L

Isko adj exp book mai karna.



Vested PSC → purane years ka exp which changed due to amendment in plan
Unvested PSC → Future years ka exp which will change due to Plan Amendment

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6. Plan Assets

These are investments specifically done to fund our DBO

J.E. for contribution in Plan Assets

Plan Assets A/c Dr

TO CIB A/c

7. Expected Return on Plan Assets (Rate will be same as Disc factor used in DBO for PV)

eg: Op. Bal of Plan Assets = 10L Disc Rate = 10%

Expected Return on P.A = 10L × 10% = 1L

J.E. ① ~~CIB A/c Dr~~ 1L

TO Expected Return 1L

② P.A 1L

~~TO CIB~~ 1L

(OR)

Plan Asset Dr. (Asset) 1L

TO Expected Return on P.A 1L

PL (EBT) -ve

8. Actuarial Gain / loss on Plan Asset

→ Plan Assets are always measured @ Fair value

Eg: Plan Assets (Opn 01.04.x1) = 10,000 (Given)

(+) Expected Return on P.A (Disc Rate 10%) — 1000 → P.A A/c Dr. TO Expected Return on P.A.
↳ 1 yr end 31.3.x2

(+) Contribution (31.3.x2 - 1 yr end) — 5000 → PA A/c Dr. TO CIB

(-) withdrawal / Benefits paid (31.3.x2) — (2000) → CIB 2000 TO P.A 2000

14000

Actuarial Gain on P.A → (P/L) — 3000 → yeh woh return hai jo humne expected se bhi zyada kamaya.

Fair Value of Plan Assets on 31.3.x2 — 17000 (Given)

Note:

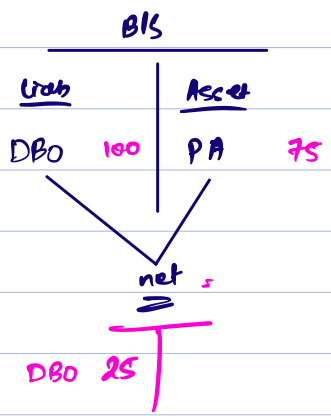
Actual Return on Plan Asset = Expected Return on P.A (+) Actuarial Gain on PA (-) Actuarial loss on P.A

= 1000 + 3000

= 4000

1) CSC → P/L	6) Plan Asset → B/S (Asset)
2) Int Cost → P/L	7) Exp. Retn on P.A → P/L
3) DBO → B/S Liab	8) Actuarial G/L on P.A → P/L
4) Actuarial G/L on DBO → P/L (Est change)	
5) PSC < vested → P/L; unvested → in future years P/L (Plan Amendment)	

7 & 8 → Actual Return on P.A.



Illus 12

Plan Assets (01.04.X1) Opn Bal.	8,00,000
(+) Expected Retn (Info not Rate – Disc Rate missing)	
(+) Contribution	250000
(-) withdrawals / Benefits paid	(200000)
	850000
Actuarial Gain on P.A	290000
FV of Plan Asset on 31.3.X2	1140000 (Given)

Actual Return on P.A = Expected Return on P.A (+) Actuarial Gain on P.A

= NA (+) 260000

= **260000**

Ans 7

① Calculation of Expected Return on P.A

Return on Opn Bal of Plan Assets $\left(100000 \times 10.25\% \times \frac{12m}{12m}\right)$ = 10250

Return on Net Contribution made on 30.09.X1 $\left(\begin{array}{l}(49000 - 19000) \\ = 30000 \times 10.25\% \times \frac{6}{12}\end{array}\right)$ 1538 approx

Expected Return on P.A 11788

OR Alternative ICAI Assumption

Assumption: 6 months as per half yearly compounding

$= \left(\sqrt{1 + r}\right) - 1$ (r → rate)

$= \left(\sqrt{1 + 0.1025}\right) - 1$

$= 1.05 - 1$

$= 0.05$ or 5%

Half year rate / 6m rate.

as we did square root

ICAI method

① Calculation of Expected Return on P.A

Return on Opn Bal of Plan Assets $\left(100000 \times 10.25\% \times \frac{12m}{12m}\right)$ = 10,250

Return on Net Contribution made on 30.09.X1 (49000 − 19000) = 1500

= 30000 × 5% × 6/12 (already of 6m)

11750

② Calculation of Actual Return

		AK Sir
Plan Asset (Opn Bal)	100000	100000
(+) Expected Return (calculated above)	11750	11788
(+) Contn	49000	49000
(−) Benefits paid / withdrawls	(19000)	(19000)
	141750	141788
Actuarial Gains on P.A	8250	8212
Fair value of Plan Asset	1,50,000	150000

Actual Return on P.A = Expected Return on P.A (+) Actuarial Gains on P.A

= 11750 (+) 8250

= 20000

OR

AK Sir = 11788 + 8212

= 20000

Data of DBO & Actuarial loss on DBO was irrelevant as nothing was asked relating to that.

9. Curtailment & Settlement

Cancellation of Plan

eg: ① Total DBO was ₹ 12000.
Co. curtailed DBO worth ₹ 1000 without any settlement payment

J.E. DBO A/c Dr 1000
To Gain on curtailment (PL) 1000

eg 2:

Liab		Asset	
DBO	18000	Plan Asset	10000
		Unvested PSC	1200
		(Unamortised)	

The curtailed 10% of DBO i.e. DBO will reduce by ₹1800 without any settlement payment

J.E. DBO A/c Dr 1800 (18000 × 10%)
To unvested PSC 120 (1200 × 10%)
To Gain on (BIF) curtailment 1680

→

BS (draft after curtailment)

DBO	16200	Plan Asset	10000
		Unvested PSC	1080

Net DBO (Liab) = 5120

Settlement occurs when entity settles the Plan Before due date

(example : DBO of ₹1,00,000 which was settled for ₹90,000)

J.E. ① withdraw money from Plan Asset
CIB A/c Dr 90,000
To Plan Assets 90,000

② Settle DBO
DBO A/c Dr 1,00,000
To CIB A/c 90,000
To Gain on settlement (PL) 10000

Illus 8 (CDR)

i) Gain on curtailment

I.E

DBO A/c Dr. 600 (6000 x 10%)

To Unamortised PSC 18 (180 x 10%)

To Gain on curtailment 582

ii) Calculation of Net Liab

DBO (after curtailment)	=	5400
less: F.V of P.A	=	(5100)
less: Unamortised PSC (after curtailment)	=	(162)
Net liab to be shown in BIS		138

Rough

BIS (after curtailment)

DBO	5400	PA	5100
(6000 - 600)		PSC	162
		↓	
		(180 - 18)	

net = 138

Note:

As IS states that Actuarial valuation should be conducted once in every 3 years, provided there are no major changes in estimates.

* Other Long term Benefits

→ These are employee Benefits (other than retirement Benefit) which are paid after 12 months from the end of reporting period.

→ Examples:

i) long term compensated absences such as sabbatical leaves

ii) long term disability benefits

iii) Any other compensation to be paid after 12 months.

⟶ Accounting is same as Defined Benefit Plan

* Termination Benefits (eg. Retrenchment Scheme, Voluntary Retirement Scheme) VRS

→ Termination Benefit are recog as an expense & liab only when:

a) A detailed formal plan for the termination is duly approved (AND)

b) A reliable estimate can be made of the amount of obligation.

when termination benefit falls due within 12 months after BS date

↓

Book liab at undiscounted value

↓

eg: Termination Benefit accrued on 31-3-x2, paid on 30-06-x2 ₹80000.

J.E. 31/3/x2 Exp (VRS) A/c Dr 80K
To Payable 80K

30/06/x2 Payable 80K
To CB 80K

when termination benefit falls due after 12 months from BS date.

↓

Book liab @ discounted value.

eg: Termination Benefit accrued on 31-3-x2, paid on 01-04-x3 ₹80000 (D.F @ 10%)

J.E. 31/3/x2 Exp (VRS) A/c Dr 72727
To Payable 72727
(at PV (80000/1.10))

31/3/x3 Int Exp Dr 7273
To Payable 7273
(72727 × 10%)

01/04/x3 Payable 80000
To CB 80000