

Ind AS 19: Employee Benefits

Section A – Practical & Relevant Theory Questions

Accounting of Bonus

Question 1

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

Annual bonus during past 10 years.

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

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

Answer

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

Particulars		₹	₹
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.

Accounting of Paid Leaves

Question 2

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 current

year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis).

At 31st March 20X1, average unused entitlement is two days per employee. Based on past experience, the management expects that only 20% of the employees will use 1 day from their carried forward leave. Salary per day is ₹ 2,500.

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

Answer

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**

Question 3

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.

Answer

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

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

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

Accordingly, **leaves unutilized** = 10 – 8 = **2 days**

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

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

Question 4

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

Ind AS 19: Employee Benefits

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. Niranjana 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.

Answer

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. Niranjana has worked for 6 days more (293 days - 287 days) in 20X0-20X1 as compared to 20X1-20X2.

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

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

The expenditure to be recognized will be as under:

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 x 3 days (excess leave utilized in 20X1-20X2)]		₹ 29,70,000

Journal Entry for 20X0-20X1

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

Journal Entry for 20X1-20X2

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

Question 5

Mr. Niranjana 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. Niranjana will avail the unutilized leaves of 2 days of 20X0-20X1 subsequently.

However, in 20X1-20X2, Mr. Niranjana 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.

Answer

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 × 2 days (leaves unutilized expected to be utilized subsequently)]	₹ 30,20,000	
In 20X1-20X2: ₹ 30,00,000 - [₹ 10,000 per day × 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

Particulars	₹	₹
-------------	---	---

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

Journal Entry for 20X1-20X2

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

Question 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 (on FIFO basis). 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.

Answer

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 31 st 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
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 31 st 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 31 st March, 20X2 (B) (350 employees x 6% x 1 day per employee)	21 man-days

Total unused vacation as on 31 st March, 20X2 (A + B)	1,337 man-days
--	----------------

Step 2: Calculation of average salary per day:

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

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

Settlement of Liability of 20X0-20X1

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

Accounting of Defined Contribution Plan

Question 7

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 20X0-20X1 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 fund at retirement date (Acer Ltd. has no further obligation except for contributions). How should this transaction appear in the financial statements of Acer Ltd. as of 31st March 20X1? Pass the journal entry to show the accounting treatment.

Answer

(i) Calculation of accrual for contributions in 20X0-20X1:

Annual gross salaries in 20X0-20X1	₹ 50.00 crores
Amount of total contributions for 20X0-20X1 (₹ 50 crores x 12%)	₹ 6.00 crores
Contributions already made in November 20X0	(₹ 2.80 crores)
Accrual (₹ 6 crores – ₹ 2.8 crores)	₹ 3.20 crores

(ii) Accounting Treatment:

Particulars		₹	₹
Employee Benefits Expense 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.

Question 8

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 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 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 the fund 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.

Answer

- (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 crores 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 crores – ₹ 20 crores) 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).**

Accounting of Defined Benefit Plan**Question 9**

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

Answer

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

Question 10

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

Answer

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

Question 11

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 retirement of service and that is equal to 1 percent of final salary for each year of service. Consider the salary in year 1 is ₹ 10,000 and is assumed to increase at 7 percent (compound) each year.

Taking a discount rate at 10 percent 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.

Answer

(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 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	49*
Current service cost (C) (Refer W.N. 2)	89	98	108	119	131
Closing obligation (D) = (A + B + C)	89	196	324	475	655

*Difference is due to approximation in computation.

Working Notes

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

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.

Question 12

From the following particulars, compute the net defined benefit liability and expense to be recognized in Profit and Loss account. (₹ in lakhs)

Particulars	Defined benefit obligation		Plan Assets	
	31 st Dec 20X2	31 st Dec 20X1	31 st Dec 20X2	31 st Dec 20X1
Balance at the beginning of the year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Expected Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Actuarial gain/(loss) on plan assets	-	-	2.12	(0.36)

Answer

Computation of defined benefit liability and expense to be charged to Statement of Profit & Loss:

	Defined benefit obligation (₹ in lakhs)		Plan Assets (₹ in lakhs)	
	31 st Dec 20X2	31 st Dec 20X1	31 st Dec 20X2	31 st Dec 20X1
Balance at the beginning of year	63.25	47.08	21.80	14.65
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Changes in demographic assumptions	0.62	1.86	-	-
Changes in financial assumptions	3.58	1.93	-	-
Experience variance	(2.49)	4.46	-	-
Benefits paid	-	(0.61)	-	(0.61)
Expected Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00

Actuarial gain/(loss) on plan assets	-	-	2.12	(0.36)
Balance at the end of year	75.07	63.25	33.39	21.80

In the Balance Sheet, the following will be recognised:

Net defined liability to be recognised for the period ending 31st December, 20X1

= ₹ 41.45 lakhs (₹ 63.25 lakhs – ₹ 21.80 lakhs)

Net defined liability to be recognised for the period ending 31st December, 20X2

= ₹ 41.68 lakhs (₹ 75.07 lakhs – ₹ 33.39 lakhs)

In the Statement of Profit and Loss, the following will be recognised:

	Defined benefit obligation (₹ in lakhs)		Plan Assets (₹ in lakhs)	
	31 st Dec 20X2	31 st Dec 20X1	31 st Dec 20X2	31 st Dec 20X1
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Expected Investment income	-	-	(1.47)	(1.12)
Total	10.11	8.53	(1.47)	(1.12)

Expense to be recognised in Statement of Profit and Loss for period ending 31st December, 20X1

= ₹ 7.41 lakhs (₹ 8.53 lakhs – ₹ 1.12 lakhs)

Expense to be recognised in Statement of Profit and Loss for period ending 31st December, 20X2

= ₹ 8.64 lakhs (₹ 10.11 lakhs – ₹ 1.47 lakhs)

Question 13

On 1st April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at ₹ 20,40,000 and the present value of the defined obligation was ₹ 21,25,000. On 31st March, 20X2 the plan received contributions from XYZ Ltd amounting to ₹ 4,25,000 and paid out benefits of ₹ 2,55,000. The current service cost for the financial year ending 31st March 20X2 is ₹ 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31st March 20X2 was ₹ 23,80,000, and the present value of the defined benefit obligation was ₹ 27,20,000.

Provide a reconciliation from the opening balance to the closing balance for plan assets and defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet?

Answer

Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets (₹)	Defined benefit obligation (₹)
Fair value/present value as at 1 st April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost	-	5,10,000
Contributions received	4,25,000	-

Ind AS 19: Employee Benefits

Benefits paid	(2,55,000)	(2,55,000)
Actuarial gain on plan assets (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at 31 st March 20X2	23,80,000	27,20,000

In the Statement of Profit and loss, the following will be recognised:

	₹
Current service cost	5,10,000
Net interest on net defined liability (₹ 1,06,250 – ₹ 1,02,000)	4,250
	5,14,250

Defined benefit re-measurements recognised in Other Comprehensive Income:

	₹
Actuarial Loss on defined benefit obligation	(2,33,750)
Actuarial Gain on plan assets	68,000
	(1,65,750)

In the Balance sheet, the following will be recognised:

	₹
Net defined benefit liability (₹ 27,20,000 – ₹ 23,80,000)	3,40,000

Question 14

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

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

- 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.
- Pass the journal entries in respect of amount(s) to be recognized.

Answer

- Extract of the Balance Sheet of RKA Private Ltd as at 31st March, 20X2**

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

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

Particulars	₹ in lacs
Service cost	55.00
Net interest (Refer W.N.1)	20.80
Profit or loss	75.80
Other comprehensive income:	
Remeasurements (Refer W.N.2)	80.20
Total	156

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

Particulars		₹ in lacs	₹ in lacs
Profit & Loss	Dr.	75.80	
Other comprehensive income	Dr.	80.20	
To Bank (Contribution)			111
To Net defined benefit liability (Refer W.N.3)			45

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

= ₹ 20.80 lacs

2. Computation of Remeasurements

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

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 = ₹ 91.20 lacs (i.e. ₹ 1,140 lacs x 8%)

There is decrease in plan asset due to remeasurement for which computation is as follows:

= Actual Return – Net interest on opening plan asset

= ₹ 24 lacs – ₹ 91.20 lacs = ₹ 67.20 lacs

Net remeasurement would be computed as follows:

= Actuarial loss on liability + Actuarial loss on asset

= ₹ 13 lacs + ₹ 67.20 lacs = ₹ 80.20 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

Question 15

A Ltd. prepares its financial statements to 31st March each year. It operates a defined retirement benefits plan on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 20X1, the actuaries advised that the present value of the defined benefit obligation was ₹ 60,000. On the same date, the fair value of the assets of the defined benefit plan was ₹ 52,000. On 1st April, 20X1, the annual market yield on government bonds was 5%. During the year ended 31st March, 20X2, A Ltd. made contributions of ₹ 7,000 into the plan and the plan paid out benefits of ₹ 4,200 to retired members. Both these payments were made on 31st March, 20X2.

The actuaries advised that the current service cost for the year ended 31st March, 20X2 was ₹ 6,200. On 28th February, 20X2, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by ₹ 1,500 from that date.

During the year ended 31st March, 20X2, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 8,000. Before 31st March, 20X2, A Ltd. made payments of ₹ 7,500 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 20X2, the actuaries advised that the present value of the defined benefit obligation was ₹ 68,000. On the same date, the fair value of the assets of the defined benefit plan were ₹ 56,000.

Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 20X2 as per Ind AS. Finance cost is to be computed on the opening balances.

Answer

On 31st March, 20X2, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be ₹ 12,000 (₹ 68,000 – ₹ 56,000).

For the year ended 31st March, 20X2, A Ltd. will report the **current service cost** as an operating cost in the statement of **profit or loss**. The amount reported will be ₹ 6,200. The same treatment applies to the **past service cost of ₹ 1,500**.

For the year ended 31st March, 20X2, A Ltd. will report a finance cost in profit or loss based on the net

pension liability at the start of the year of ₹ 8,000 (₹ 60,000 – ₹ 52,000). The amount of the **finance cost will be ₹ 400** (₹ 8,000 × 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The **gain on settlement of ₹ 500** (₹ 8,000 – ₹ 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 20X2, the remeasurement loss will be 3,400 (Refer W. N.).

Working Note: Remeasurement of gain or loss

	₹
Liability at the start of the year (₹ 60,000 – ₹ 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (₹ 68,000 – ₹ 56,000)	12,000

Question 16

Arunachalam Ltd. operates a Defined Retirement Benefits Plan for its current and former employees. Given the large size of the company, it engaged a firm of Actuaries for advice on the Contribution Levels and overall Liabilities of the Plan to pay benefits. Following details are given:

- (a) On 1st April, 20X1, the actuarial valuation of the present value of the defined benefit obligation was ₹ 15 crores. On the same date, the fair value of the assets of the Defined Benefit Plan was ₹ 13 crores. On 1st April, 20X1, the annual market yield based on Government Bonds was 5%.
- (b) During the year ended 31st March, 20X2, Arunachalam made contributions of ₹ 1.75 crore into the Plan and the Plan paid out benefits of ₹ 1.05 crore to retired members. Assume that both these payments were made on 31st March, 20X2.
- (c) The Actuarial Firm estimated that the current service cost for the year ended 31st March, 20X2 would be ₹ 1.55 crores. On 28th February, 20X2, the rules of the Plan were amended with retrospective effect which led to an increase in the present value of the defined benefit obligation by ₹ 37.5 lakhs from that date.
- (d) During the year ended 31st March, 20X2, Arunachalam was in negotiation with employee representatives regarding planned redundancies. These negotiations were completed shortly before the year end and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 2 crores. Before 31st March, 20X2, Arunachalam made payments of ₹ 1.875 crores to the employees affected by the redundancies in compensation for a curtailment of their benefits. These payments were made from the assets of the Retirement Benefits Plan.
- (e) On 31st March, 20X2, the present value of the defined benefit obligation was ₹ 17 crores and the

fair value of the assets of the Defined Benefit Plan was ₹ 14 crores.

Discuss how the above will be accounted for in the books of Arunachalam Ltd. for the year 20X1-20X2. Also give the extracts of financial statements affected due to the above transactions. Finance cost is to be computed on the opening balances.

Answer

(i) Extract of Balance Sheet (Net Amount in the Balance Sheet) (₹ in lakhs)

	31.3.20X2	1.4.20X1
PV of Defined Benefit Obligation (given)	1,700.00	1,500.00
FV of Plan Assets (given)	(1,400.00)	(1,300.00)
Net Defined Benefit Liability (under Long-term Provision)	300.00	200.00

(ii) Extract of Statement of Profit and Loss

	(₹ in lakhs)
Current service cost (given)	155.00
Past service cost (given)	37.50
Gain on settlement (₹ 200 lakhs – ₹ 187.50 lakhs)	(12.50)
Net interest on net defined benefit liability [₹ 75 lakhs – ₹ 65 lakhs]	10.00
Total to Statement of Profit and Loss	190.00

(iii) Extract of Other Comprehensive Income (Remeasurements)

	(₹ in lakhs)
Actuarial loss on defined benefit obligation (W.N.1)	(237.50)
Return on plan assets other than expected return (W.N.2)	152.50
Total	(85.00)

Working Note:

Defined Benefit Obligation		Plan Assets	
Particulars	₹ in lakhs	Particulars	₹ in lakhs
PV of obligation b/d	1,500.00	FV of plan assets b/d	1,300.00
Interest cost [₹ 1,500 x 5%]	75.00	Interest income [₹ 1,300 x 5%]	65.00
Current service cost	155.00	Contribution during 20X1-20X2	175.00
Benefits paid during 20X1-20X2	(105.00)	Benefits paid during 20X1-20X2	(105.00)
Plan curtailment and settlement	(200.00)	Payment towards settlement	(187.50)
Past service cost	37.50	Actuarial gain (balancing figure)	152.50
Actuarial loss (balancing figure)	237.50		
PV of obligation c/d	1,700.00	FV of plan assets c/d	1,400.00

Question 17

SA Pvt Ltd is engaged in the business of retail having 100 retail outlets across Northern and Southern India. The company's head office is located at Chennai.

SA Pvt Ltd is a subsidiary of SAG Ltd. SAG Ltd is listed on the National Stock Exchange in India.

Following information is available for SA Pvt Ltd:

Plan Assets

At 1st April, 20X1, the fair value of plan assets was ₹ 10,000.

Contribution to the plan assets done on 31st March, 20X2 – ₹ 3,000

Amount paid on 31st March, 20X2 – ₹ 300

At 31st March, 20X2, the fair value of plan assets was ₹ 14,700.

Actual return on plan assets – ₹ 2,000

Defined Benefit Obligation

At 1st April, 20X1, present value of the defined benefit obligation was ₹ 12,000.

At 31st March, 20X2, present value of the defined benefit obligation was ₹ 15,500.

Actuarial losses on the obligation for the year ended 31st March, 20X2 were ₹ 100.

Current Service Cost – ₹ 2,500

Benefit paid – ₹ 300

Discount rate used to calculate defined benefit liability – 10%

Suggest if there is any amount based on the above-mentioned information that would be taken to other comprehensive income (with workings). Also compute net interest on the net defined benefit liability.

Answer

As per Ind AS 19, net actuarial gain (remeasurement) of ₹ 900 would be recognized in other comprehensive income.

Computation of Net remeasurement

= Actuarial gain on plan asset – Actuarial loss on defined benefit obligation

= ₹ 1,000 (Refer W.N.) – ₹ 100 (Given in the question) = **₹ 900**

Computation of net interest expense

Particulars	Amount in ₹
Defined benefit liability as at 1 st April 20X1 (Given in the question)	12,000
Less: Fair value of plan asset as at 1 st April 20X1 (Given in the question)	(10,000)
Net defined benefit liability	2,000
Net interest expense (as it is net liability) [₹ 2,000 x 10%]	200

Working Note: Computation of amount of actuarial gain on plan asset

Particulars	Amount in ₹
Actual return on plan asset for year ended 31 st March 20X2 (Given in question)	2,000
Less: Interest income on ₹ 10,000 held for 12 months at 10%	(1,000)
Actuarial gain	1,000

Question 18

At 1st April, 20X0, the fair value of the Plan Assets was ₹ 10,00,000. The Plan paid benefits of ₹ 1,90,000 and received contributions of ₹ 4,90,000 on 30th September, 20X0. The company computes the Fair

Value of Plan Assets to be ₹ 15,00,000 as on 31st March, 20X1 and the Present Value of the Defined Benefit Obligation to amount to ₹ 15,79,200 on the same date. Actuarial losses on defined benefit obligation were ₹ 6,000.

Compounding happens half-yearly. The normal interest rate for 6 months period is 10% per annum, while the effective interest rate for 12 months period is based on the following data:

At 1st April, 20X0, the company made the following estimates based on market prices at that date:

Particulars	%
Interest and Dividend Income, after tax payable by the fund	9.25
Add: Realized and Unrealized Gains on Plan Assets (after tax)	2.00
Less: Administration Costs	(1.00)
Expected Rate of Return	10.25

Determine actual return and expected return on plan asset. Also compute amount to be recognized in 'Other Comprehensive Income' in this case.

Answer

Computation of Expected Return on Plan Assets

Particulars	₹
Return on ₹ 10,00,000 for 20X0-20X1 at 10.25% = ₹ 10,00,000 x 10.25%	1,02,500
Add: Return on ₹ 3,00,000 for 6 months at 10% Normal Rate = [₹ 3,00,000 (Inflow ₹ 4,90,000 - Payments ₹ 1,90,000) x 10% x 6/12]	15,000
Expected Return on Plan Assets	1,17,500

Computation of Actual Return on Plan Assets

Particulars	₹
Fair Value of Plan Assets at the year-end - 31 st March 20X1	15,00,000
Less: Fair Value of Plan Assets at the beginning - 1 st April 20X0	(10,00,000)
Less: Contributions received during the year 20X0-20X1	(4,90,000)
Add: Benefits paid during the year 20X0-20X1	1,90,000
Actual Return on Plan Assets	2,00,000

Computation of Net Actuarial Gain

Particulars	₹
Actual Return on Plan Assets	2,00,000
Less: Expected Return on Plan Assets	(1,17,500)
Actuarial Gain on Plan Assets	82,500
Less: Actuarial Loss on Defined Benefit Obligation (given)	(6,000)
Net Actuarial Gain to be recognized in OCI	76,500

Section B – Fully Irrelevant Theoretical Questions

Question 1

Laxmi Mills is a profit-making entity and has reported ₹ 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.

Answer

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).

Question 2

An entity has 100 employees, who are each entitled to 5 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 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.

Answer

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.

Question 3

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.

Answer

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.

Question 4

(SM)

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.

Answer**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.

Question 5

(SM)

A company pays each employee lump-sum one-time benefit upon retirement. This benefit is computed based on the employee's years in service in 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 defined contribution plan or defined benefit plan and why?

Answer**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.

Question 6 (SM)

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.

Answer

- (i) A benefit of ₹ 150 is attributed to each year.
- (ii) 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).

Question 7 (SM)

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.

Answer

- (i) 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).
- (ii) 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.

Question 8 (SM)

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.

Answer

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.

Question 9 (SM)

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.

Answer

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.

Question 10

(SM)

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.

Answer

- (i) In this case, as per the company's plan, a benefit of ₹ 200 ($₹ 2,000 \div 10$ years) is attributed to each of the first 10 years.
- (ii) 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.

Question 11

(SM)

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 percent 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.

Answer

- (i) Under the Plan's Benefit Formula, the entity should attribute 4% of the present value of the expected medical costs ($40\% \div 10$ years) to each of the first ten years, and 1% ($10\% \div 10$ years) to each of the second ten years.
- (ii) For employees expected to leave within 10 years, no benefit is attributed.
- (iii) 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.

Question 12

(SM)

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 percent 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.

Answer

- (i) 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 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 ($50\% \div 20$ years).
- (ii) For employees expected to leave between 10 and 20 years, the benefit attributed to each of the

first 10 years is 1% ($10\% \div 10$ 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.

- (iii) For employees expected to leave within ten years, no benefit is attributed.
- (iv) 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.

Question 13

(SM)

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.

Answer

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, benefit attributed to each of the first ten years is 2% (20% divided by 10) of present value of 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.

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

Question 14

(SM)

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 retirement 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 retirement 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.

Answer

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

Number of employees not likely to fulfill 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,
- 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 retirement 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.

Question 15

(SM)

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.

Answer

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.

Question 16

(SM)

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.

Answer

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.

Question 17

(SM)

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 employees is estimated to be 6 years.

Advise the Company in line with Ind AS 19.

Answer

- (i) **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".
- (ii) **Measurement and Presentation:** In given case, amount of surplus from Pension Scheme of ₹ 60 lakhs is Actuarial Gain and should be recognized as a "re-measurement" in "Other Comprehensive Income", and not to be adjusted from amount of annual contribution in future years.
- (iii) **Disclosure:** The change relating to Actuarial Valuation for Pension Scheme requires disclosure under Ind AS 8. Disclosures required by Ind AS 19 should also be made in financial statements.

Question 18

(SM)

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 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 financial statements.

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

Answer

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 statute, 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 10 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 Financial Statements set out in 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, company have to state that the Ind AS have not been complied with by company in 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.