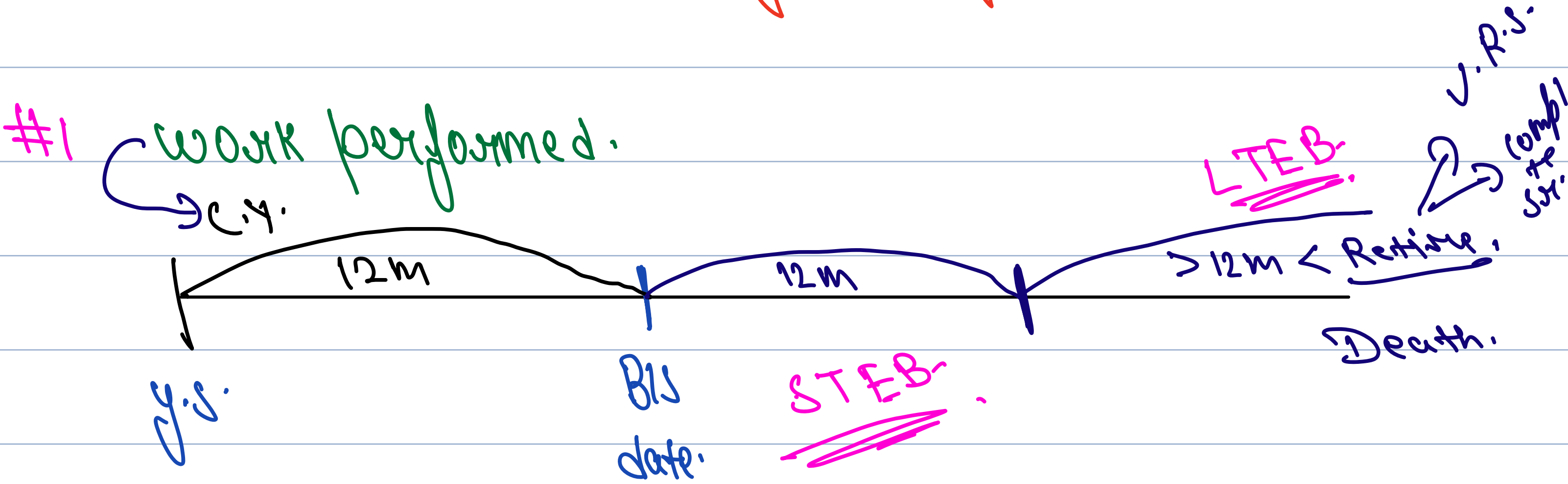
श्री गणेश
श्री सरस्वत्यै नमः
शुभ लाभ

AS-15

Employee benefits.

#1



∴ This standard deals with

a) measurement of E.B. of C.Y. and its corresponding Liability.

b) Recognition of E.B. in C.Y.

→ Just to satisfy accrual & matching concept.

#2 Who is employee.

⇒ Employee is any individual who performs service for an organisation on period basis

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⇒ it includes.
- ↳ full time employee
- ↳ Part time employee
- ↳ Permanent employee
- ↳ management personnel. (Director, manager)
- ↳ Casual worker

it does not include
- ↳ Contract worker
- ↳ articles clerk.
- ↳ apprentices.

⇒ In case of outsourcing we need to check.

Contract of service ↓

In this the contract is directly with the employee and he/she is

Contract for service. ↓

(i) In this contract is with 3rd party to provide employee.

obliged to work as per order of entity.

(2) Such employees are not on payroll of entity but on payrole of 3rd party

(3) There is limited control on such employees and employees generally work as per direction of 3rd party.

#3 Employee Benefits ?

Any consideration paid or payable to employee directly or indirectly

Note :- This A.S. does not cover or deal with E.B. based on Shares.

↓

(GN-14) → Esop.

Ind AS-102 (or)

#4 Why E.B.

- Formal Agreement (salary / wages)
- legal binding (Bonus / PF / grat.)
- Constructive incentive (Diwali Bonus)

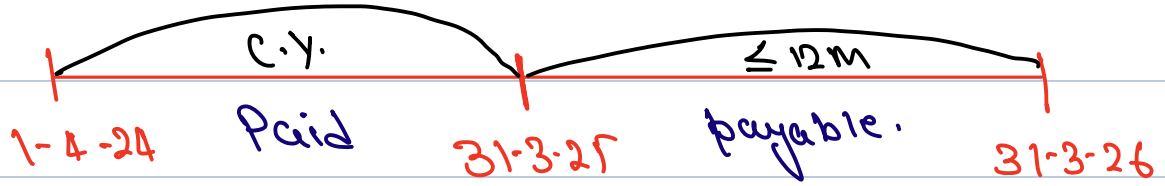
#5 E.B. to whom

- Directly to employee
- Indirectly to employee through
  - Spouse
  - dependant Relative.
  - any 3rd party org. (PIF, multiemployer fund.)

#6 Types of E.B.

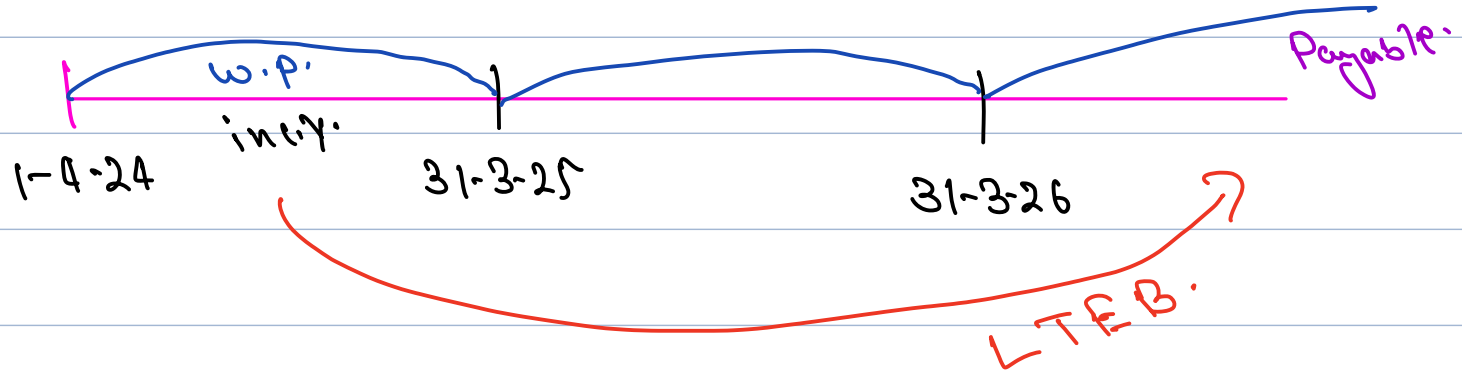
I) Short term E.B. (STEB)

paid in C.Y. or payable within 12m from end of C.Y.



STEB.

II. Long term E.B. (LTEB)
payable after 12m from end of C.Y.



III. Post employment E.B. (PEEB)
payable on retirement

IV. Termination Benefits.
VRS / Terminated from Job.

#7 Objective of standard.
To measure and recognise those E.B. which accrued in C.Y. (work performed in C.Y.) & its corresponding liability

Journal

E.B.E. Dr

To Cash / bank / payable.

paid by entity in C.Y.

- rec'd. by employee in C.Y.
  - ↓
  - wages / Salary.
- rec'd. by employee on retirement
  - ↓
  - P.F (Third party org.)

Defined Contribution Plan (DCP)

(Tention with 3rd party not with employer.)

payable by entity in C.Y.

- rec'd. by employee in next year
  - ↓
  - O/s salary
  - Bonus.
  - profit sharing
  - leave encashment.
- rec'd. by employee beyond 12m from end of C.Y.
  - ↓
  - Pension
  - Gratuity
  - Disability
  - Bonus.

↓

Defined Benefit obligation (D.B.O.)

(involves TVOM)

(Tention is with employer.)

#8 STEB.

These are those E.B. which are either paid in C.Y. or payable within 12 m from end of C.Y.

Journal.

C.Y. EBE Dr
To CIB. (paid)
To provision for EBE (payable)

N.Y. Provision for EBE Dr
To Cash/bank (if paid in cash)
To EBE (if adj. against EBE)

#9 Leave encashments. (L.E.)

In case of L.E., provision should be made for Expected Compensation payable.

Accing

Accumulating

↓

means leaves availed in C.Y. will accumulate & compensated in Next year

Vested

↓

Comp. in cash (cash against leave)

↓

Make 100% provision for unavailed leave

↓

Unavailed leave × 100% × Salary per day

Unvested

↓

Comp. in leave. (leave against leave)

↓

Make partial provision for unavailed leave.

↓

Unavailed leave × prob. factor × Salary p. day.

Non Accumulating

↓

No compensation

↓

No entry.

Note 1 :- C.Y. leaves should be exhausted first.

Note 2 :- Salary p.day = $\frac{\text{Salary p.a.}}{365 - \text{weekends} - \text{leave granted}}$

Question# 1

Leave granted = 20 days.

Leave taken = 15 days. in C.Y.

salary p.day = ₹ 1

Soln :- Leave unavailed = 20 − 15 = 5 day.

Case1 Vested

C.Y.			N.Y.		
EBE	Dr	365	EBE	Dr	365
To CIB		365	To CIB		365
EBE	Dr	5	Prov. for EBE	Dr	5
To provision		5	To CIB.		5
(5 d. × 100% × ₹1)					
PIL	Dr	370	PIL	Dr	365
To EBE		370	To EBE		365

Case 2 Unvested & prob. factor 80%.

C.Y.

EBE Dr 365
To RIB 365

N.Y.

EBE Dr 365
To CIB 365

EBE Dr 4
To prov. 4
(₹1 x 5 x 80%)

Prov. for EBE Dr 4
To EBE 4

PIL Dr 369
To EBE 369

PIL Dr 361
To EBE 361

Question# 2	
1. Allowed leaves	15 days per annum
2. Availed	3 days
3. Salary `	₹ 1000 per day
4. Employee can take leave next year for unavailed leaves in CY	
5. It is 50% probable that will avail the accumulated leave.	
Journalise the above transaction in CY and NY	

Soln :-

C.Y.

EBE Dr 6000
To prov. 6000
(12 days x 50% x ₹1000)

N.Y.

Provision Dr 6000
To EBE 6000

Question# 3	
1. Salary	₹ 3,65,000
2. Leave granted	30 days per annum
3. Leave availed	20 days
4. Year	365 days
5. Working days	5 days per week
6. His leave is accumulating	
CASE - 1 – VESTED	**CASE - 2 – UNVESTED. Probability factor is 60%**

Soln :-

$$\text{Salary per day} = \frac{36500}{365 - (52 \omega \times 2) - 30}$$

$$= 1580 \text{ ₹ per day.}$$

Case 1 Vested.

		C.Y.	N.Y.	
EBE	Dr	1580	Prov. Dr	1580
	To prov	1580	To CIB	1580

(100% × 1580 × 10)

Case 2 Unvested.

		C.Y.	N.Y.	
EBE	Dr	9480	Prov. Dr	9480
	To prov	9480	To EBE	9480

(60% × 1580 × 10)

Question# 4

A ltd has a policy of giving 10 days leave per annum. Salary is ₹1,000 per day. The company follows accumulating and vesting policy. Details of leaves are

- 50 employee have 7 carried forward leaves
- 30 employee have 4 carried forward leaves
- 20 employee have 2 carried forward leaves

Calculate total provision

Soln :-

no. of employees (a)	no. of unavailed leave (b)	Salary p.d. (c)	Total (axbxc)
50	7	1000	350000
30	4	1000	120000
20	2	1000	40000
		Total	510000

Question# 5

An entity has 100 employee, leaves are granted 5 days per annum. Leaves are unvested on LIFO basis. Unavailed is 2 leaves per employee. Expectation 92 employee will take 5 days leaves and 8 employees will take 6.5 days leave. How much provision should entity recognise ?

Soln :-

L.Y. leave = 2.

C.Y. leave = 5

no. of employee = 100

1

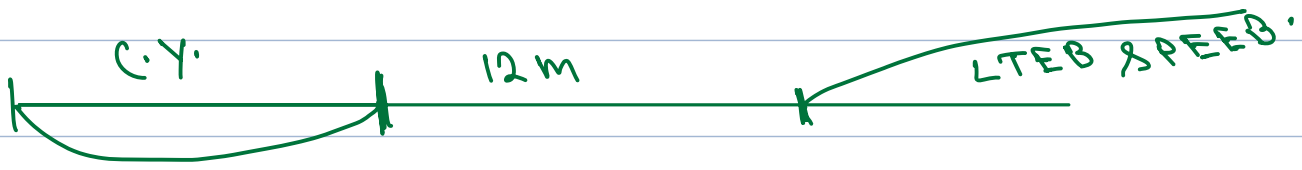
	92	8
exp. leave	5	6.5
out of C.Y.	(5)	5
	0	1.5

∴ out of 2 unavailed leaves it is expected that 8 emp. will take 1.5 days of leave.

∴ provision = 8 emps × 1.5 days × N.A.
= 12 days.

(due to lack of inf. in Q. we cannot calculate exact amount of provision)

10 LTEB & PEEB



There are 2 Types of LTEB & PEEB.

i) DCP
ii) DBO

i) Defined Contribution plan :- In this employer contributes fixed amount to third party.
eg ⇒ pension funds, ins. policy fund etc.

This is unfunded liability means any fund is not created by company butitis.

managed by 3rd party.

In this case employer has to contribute fixed amount every year which is w/off to PIL.

Journal :- EBE Dr to CIB & PIL Dr to EBE

ii) Defined Benefit obligation (DBO) :-

a) in this case employer creates a Plan (fund) & has an obligation to provide agreed benefit to employee.
eg → gratuity, pension etc.

b) Since its entity's obligation to provide benefits. ∴ entity should recognise such obligation in BIS as Liability.

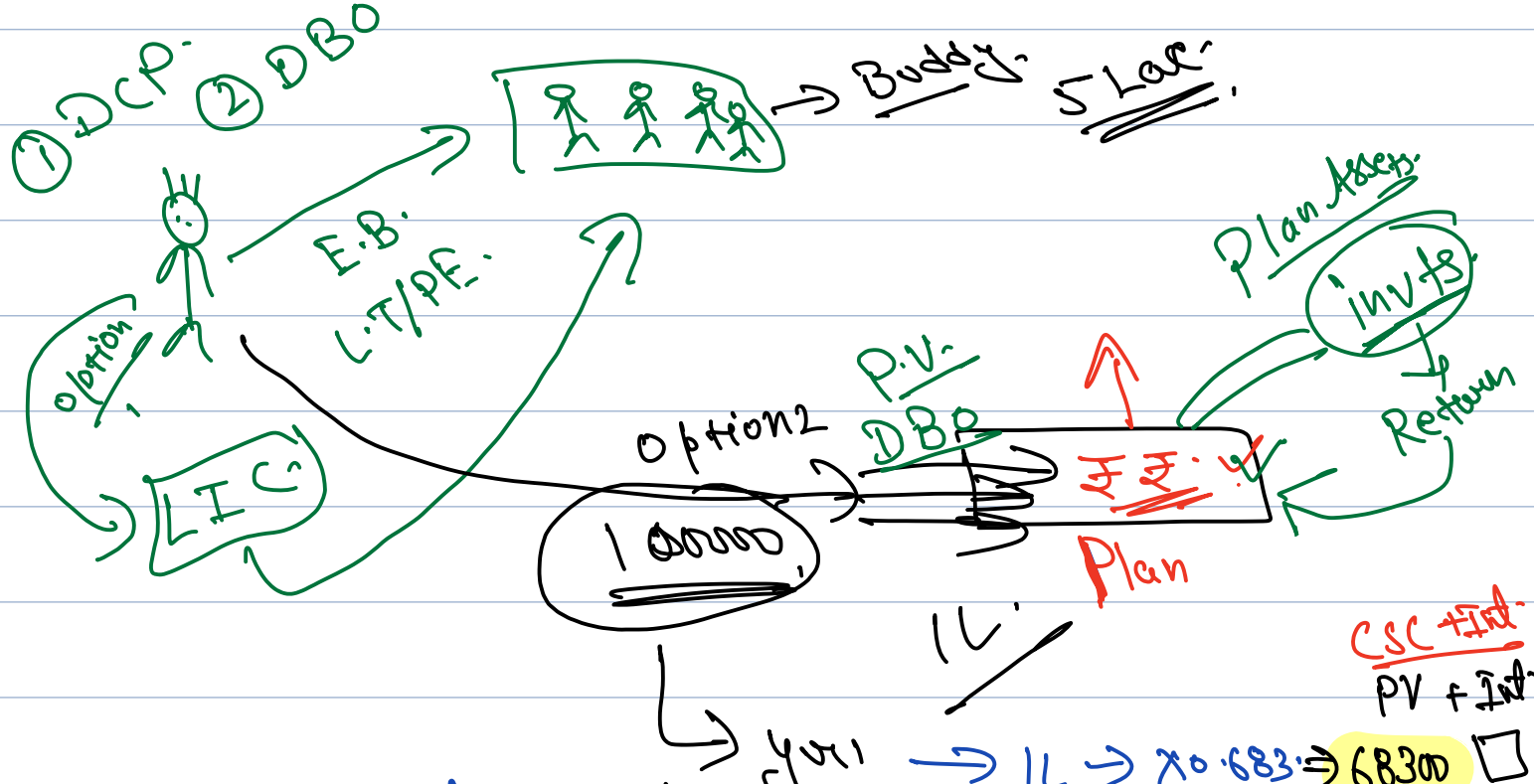
c) These obligations are incurred in C.Y. but payable to employee on retirement

∴ these payments should be recorded @ P.V. of future cashflows or future liability known as Current service cost (CSC).

d) There C.S.C. should be unwound every year with interest.

e) Agreed benefits depends upon various variables such as

- ↳ length of Sr.
- ↳ Salary last drawn
- ↳ employee t/o ratio



@10% 5.0

↳ yr2 → 1L → 0.7513 ⇒ 75130 PV + Int

↳ yr3 → 1L → 0.826 → 82600 PV + Int

↳ yr4 → 1L → 0.9091 ⇒ 90910 Int + PV

↳ yr5 → 1L → 100000

500000

yr 1

P/L	
Exp.	
EB → CSC	68300

B/S	
NCL.	
PV DBO 68300	

f) ∵ these funds are funded & funds are invested. So they are known as Plan assets.

Now we will see accing of
i) DBO
ii) Plan assets.

Part - I
DBO (accing)

We will study it in 4 parts.

a) Basic understanding of project Unit Credit method (PUCM)

b) Changes in actuarial assumptions

c) modifications in DBO

d) Curtailment of DBO

a) PUCM.

eg:- HD Ltd made a DBO plan payable after 6 years of service. amount of Bonus will be 30% of Salary last drawn. for each completed year of service. Salary @ year 0 (day 1) = ₹ 40000 p.a.

escalation rate = 8% on 1st day of each year S.D.F = 10%.

Soln:- Step1 Salary last drawn

$\Rightarrow 40000 \times 1.08 \times 1.08 \times 1.08 \times 1.08 \times 1.08$

5 times.

$\Rightarrow 58773$

Step2 Bonus. (DBO)

$\Rightarrow$ Salary last drawn $\times$ 30% $\times$ 6 years

$\Rightarrow 58773 \times 30\% \times 6$

$= 105792$

↓

This amount is payable after 6 yrs.

$\therefore$ each year Bonus $= \frac{105792}{6}$

$= 17632.$

Step3 Calc of C.S.C.

year	amount (a)	PV @10% (b)	C.S.C. (axb)
1	17632	0.6209	10948
2	17632	0.683	12043
3	17632	0.7513	13247
4	17632	0.826	14564
5	17632	0.9091	16029

Step 4 Liability sheet of DBO

yr end	op Bal	+ Interest	+ CSC	= Cl. bal.
1	—	—	10948	10948
2	10948	1095	12043	24086
3	24086	2409	13247	39741
4	39741	3974	14564	58279
5	58279	5828	16029	80136
6	80136	8024	17632	105792
		Bif.	↓ last annual DBO	↓ Total DBO

Step 5 Journal

	yr1	yr2	yr3	yr4	yr5	yr6
CSC Dr	10948	—	—	—	—	—
To PVDBO	10948					
P/L Dr	11	—	—	—	—	—
To CSC						

CSC	Dr	—	12043	13247	14564	16029	17631
Int.	Dr	—	1095	2409	3974	5828	8024
	To PVDBO	—	13138	15656	18538	21857	25656

PVDBO Dr	—	—	—	—	—	105792
To bank						105792

Step 6

PVDBO (ledger) (Liability)

yr1	To Cld	10948	yr1	By CSC	10948
yr2	To Cld.	24086	yr2	By Bal. Bld	10948
				By CSC	12043
				By Int.	1095
			yr3	By Bal. Bld	24086

QUESTION: 4 Financial Reporting CA FINAL *(5 Marks each, May, 2014)* **Illustration 9**

An employee Roshan has joined a company XYZ Ltd. in the year 20X1. The annual emoluments of Roshan as decided is ₹ 14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring. Thus he will get 5 yearly increment.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

Soln :- Step 1 Last Drawn Salary

$= 1490210 \times 1.1 \times 1.1 \times 1.1 \times 1.1 \times 1.1$

$= 2400000$

Step 2 DBO

= Last drawn salary × 25% × 5

$= 2400000 \times 25\% \times 5$

$= 3000000$

Annual DBO $= \frac{3000000}{5 \text{ yrs.}} = 600000$

Step 3 CSC

year	amount	PV @ 8%	PV

1	600000	0.735	441000
2	600000	0.794	476400
3	600000	0.857	514200
4	600000	0.926	555600
5	600000	1	600000

Step 4 Liability sheet of DBO

year	Op. bal	+ Int @ 8%	+ CSC	= Cl. bal
1	—	—	441000	441000
2	441000	35280	476400	952680
3	952680	76214	514200	1543094
4	1543094	123447	555600	2222141
5	2222141	177859	600000	3000000

(BIV)

Issue-2 :- Δ in actuarial Assumptions

meaning

Such as changes in

i) Death Rate {LIC}.

measurement

a) Due to Δ in any assumption

Bal. of PVOBO is

Recognition

→ loss.

ii) employee t/o { H.R. }
iii) Salary inc. Rate { mgmt }.
iv) Dis. rate { RBI }.

recomputed as per Revised data.

b) Revised Bal. PVDBO xxx → *
Old Bal. of PVDBO xxx → #
Actuarial Gr/L xxx

→ gain
PVDBO Dr
To PIL

PIL Dr
To PVDBO

if * > # = loss
& * < # = gain

Question# 17

1. Final Salary ₹ 1,00,000
2. Gratuity promised 2% for each year of service
3. Period of service 3 years
4. Discounting rate 1st year is 10% and 2nd year revised to 9%

Prepare PVDBO A/c

Soln :-

step1 Salary last drawn = 100000

step2 Gratuity amount
= Salary last drawn × 2% × 3 yrs
= 100000 × 2% × 3
= 6000

Annual DBO = 6000/3 = 2000

step3: CSC (important)

yr	Annual DBO	PV@10%	CSC	PV@9%	CSC
1	2000	0.8264	1653	0.8417	1683
2	2000	0.9091	1818	0.9174	1835
3	2000	1	2000	1	2000

Step 4 Liability sheet of PVDBO

Year	o/p. Bal.	Int@ 9.1.	CSC	Cl. bal.
1	—	—	1683	1683
2	1683	151	1835	3669
3	3669	331	2000	6000

(Bal)

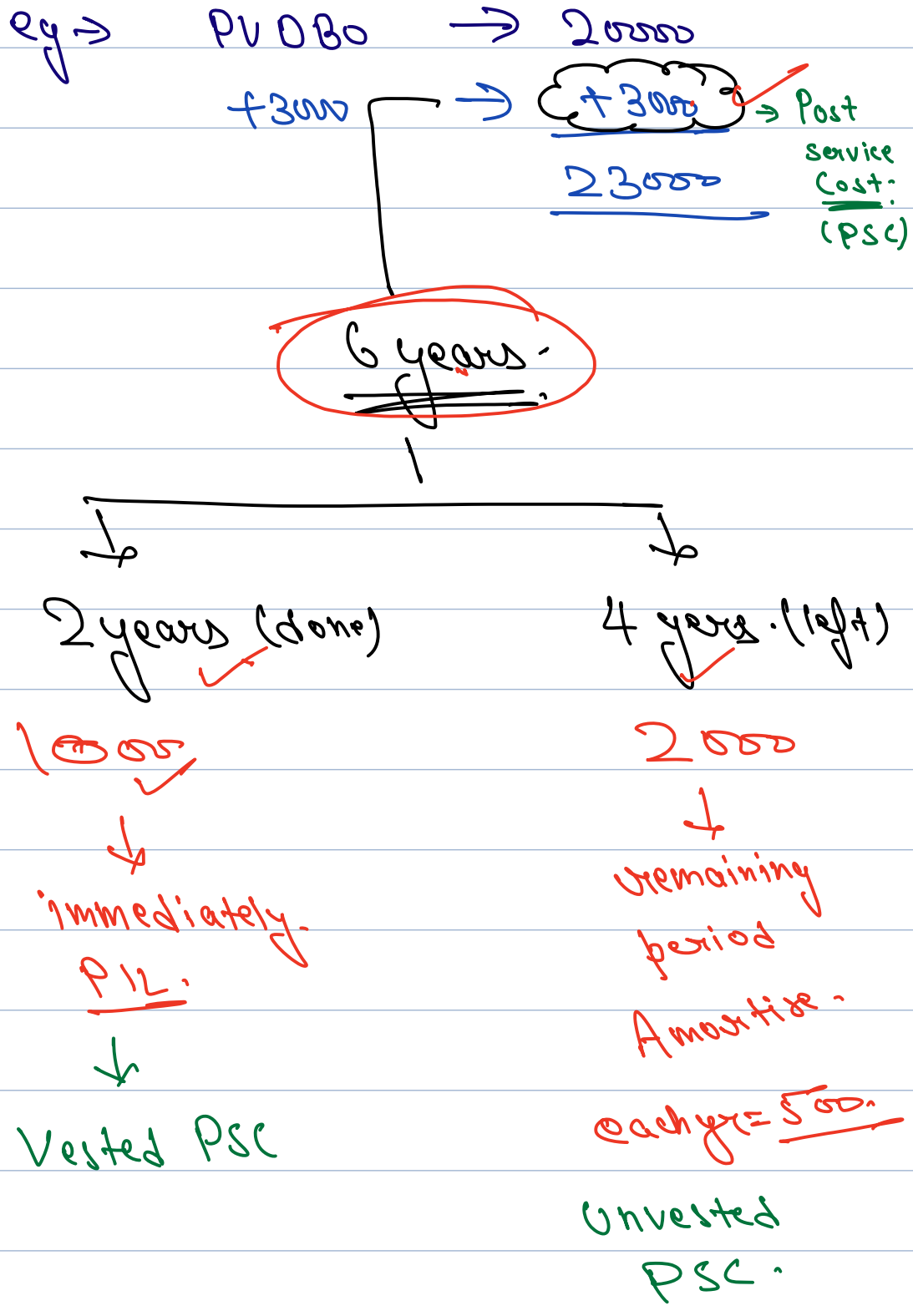
Step 5 PVDBO

To Bal. Cld.	1653	Yr1	By CSC	1653
		Yr2	By Bal. Bld	1653 (30) 1683
			By CSC	1835
To Bal. Cld	3669		By Int. (1653 × 9.1.)	149 (2) 151
			By Act. loss. (P/L)	32
To bank	6000	Yr3	By Bal. Bld	3669
			By CSC	2000
			By Int.	331

Issue-3 → Modification

↳ will lead to benefit to employees

↳ increase in PVOBO



Meaning

It refers to increase in PVDBO bal. due to Δ in plan retrospectively.

eg ⇒ earlier employee were entitled to gratuity of 1%. but now they are entitled to 2%.

Vested PSC

→ It means employee are entitled to the benefits immediately. on a/c of Δ in the plan.

→ This vested PSC is w/off immediately

→ PSC (vested) To PVDBO

→ PIL To PSC.

Unvested PSC

It means benefit arising on a/c of Δ in the plan will be given to employees after employee fulfills certain condition.

→ PSC (unvested) is charged to PIL on SLM basis over remaining life of PVDBO

→ PSC (unvested) To PVDBO

→ PIL Dr To PSC

Journal.

PSC (vested) Dr 1000
PSC (unvested) Dr 2000
To PVDBO 3000

BIS.

PVDBO	23000	
– Un PSC	(2000)	21000

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Issue 4. Curtailment of DBO

↓

Due to continuous losses.

DBO is stopped.

it means No further CSC + Int.

Suppose :-

PVDBO = CSC + Int.

15000 + ₹ 3000 (P.S.C.)

Vested	Unvested
1000	2000
	(SLM)

V. PSC 1000

Un. PSC 2000

To PVDBO 18000

Now few years later.

Assume

BIS.

PVDBO	20000	UPSC	1500
		Plan Asets	12000

Curtailment is done

100%.

20%.

PVDBO Dr 2000

To UPSC 1500

To PIL 1850

Gain on Curtailment.

PVDBO Dr 400

To UPSC 300

To PIL 3700

GOL

BIS.

Non CL		
LTP.		
PVDBO	16000	
— UPSC	(1200)	
— P. Asets	(12000)	2800

QUESTION: 3 **Financial Reporting** **Similar to CA Final Nov 13 (5M)** **Illustration 8**

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

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

(a) *Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.*

(b) *The fair value of plan assets on the date is estimated at ₹ 5,100.*

(c) *The unamortized past service cost is ₹ 180.*

(d) *Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation.*

Soln :-

PVDBO = 6000 Curtailment = 10%

UPSC = 180 Plan assets = 5100

Journal :- PV DBO Dr 600

To UPSC 18

To PIL (Bal) 582

BS. (extract)

Non C.L.	

a) LTP:

PVDBO	5400	
– UPSI	(162)	
– PA	(5100)	138

Part – II
Plan Assets

i) meaning :- For payment of D.B.O., a Co. invests certain amount (generally CSC + int) in assets on actuary's recommedations or guidance. Such investments are known as Plan Assets.

ii) measurement :-

a) Plan assets are measured at F.V.

b) any Δ in FV of Plan assets is known as actuarial gain/loss ⇒ P/L.

c) Return on plan assets.

Dividend & Interest	xxx
Realised / unrealised gain / loss	xxx
– Tax on returns	(xx)

— Administration cost of P.A. (xx)

Exp. return xxx

Plan Assets.

To Bal. B/d.	xxx	✓ [12 m]	
To bank	xxx	✓ [Date of Invt.]	
		By Bank (benefit paid)	xxx

Note :- It is calculated as under

↳ op. Bal ⇒ r% x op. bal ⇒ xx

↳ on net increase ⇒ i% x net increase ⇒ xx

Return.

Here net increase = Cont. to P.A. − Benefits paid.
(fresh invt) (Sale of P.A)

r = R. O. Int. p.a. Compound half yearly.

i = R. O. Int. for 1/2 year.

Suppose

op. bal = 100 — RoI = 10%.

Int. @ 5% 5

105

+ Int @ 5% 5.25

110.25

10.25 %

↓

e

$$\to i = \left(\sqrt{1 + e/100} - 1\right) \times 100$$

iii) Recognition.

Plan Asset

To bal. b/d.	xxx	By Bank (Benefits paid)	xxx
To Bank (contribution)	xxx		
To Return. @% x op. bal xx; i% x Define. xx	xxx		
To actuarial gain	xxx ↓ (B/f)	By Bal. c/d.	xxx

known as

... Return

Acts &

QUESTION: 6 CA FINAL NOV 2009 (5 M) **Practical Questions** 8

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

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

Soln

Plan Assets.

To Bal. b/d.	800000	By Bank	200000
To bank	280000		
To Actual return	260000		
		By Bal. c/d	1140000

B/f

QUESTION: 7 CA FINAL MAY 2011 (5 M) (P.M) (Similar to Sept 24) **Practical Questions** 9

The fair value of plan assets of Anupam Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1st April, 20X1. On 30th September, 20X1 the plan paid out benefits of ₹ 25,000 and received inward contributions of ₹ 55,000. On 31st March, 20X2 the fair value of plan assets was ₹ 3,00,000. On 1st April, 20X1 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund	10.25
Realized gains on plan assets (after tax)	3.00
Fund administrative costs	(3.00)
Expected rate of return p.a.	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 20X2, as per AS 15.

Soln :- Plan Assets.

To bal. b/d 20000	By Bank 25000
To bank 5500	
To Return	
→ (21 × 10.25%) 2050	
→ (30000 × 5%) 1500 22000	
To act. gain 4800	By Bal. c/d 30000
B/f.	

Expected Return = 22000

Actual Return = 22000 + 4800

= 70000

#11 Termination benefits :- it refers to those e.b. that are payable as a result of either the enterprise decision to terminate (retrenchment) or employees decision to accept (V.R.S.).

T.B. are recognised as an expense immediately. if this benefits are payable after 1 year then the expense is recognised

at its p.v.