Question# 16 **{MTP – SERIES II – NOV- 2018}**

An employee joined in company during 2013. Annual emoluments at the time of appointment is ₹ 14,90,210. The company also has a policy of gratuity lumpsum payment of 25% of salary last drawn, if employee retires after completing minimum of 5 years. Salary growth rate is 10% per annum and discounting factor is 8%

Prepare PVDBO A/c

Rem

Soln :-

a) Retires in 6th yr early.

b) ∴ see 5 increments.

c) ∴ serve also 5 yrs.

Step 1 :- Calculation of Annual DBO

Salary last drawn = 1490210 × 1.1 × 1.1 × 1.1 × 1.1 × 1.1

= 24,00,000

amount of gratuity (D.B.O) = 2400000 × 25% = ₹ 6L

Annual DBO = $\frac{600000}{5 \text{ yrs}}$ = ₹ 120000 p.a.

Step 2 Cal. of CSC

yr	annual DBO	DF@8%	CSC
1	120000	0.7350	88203
2	120000	0.7938	95259
3	120000	0.8573	102881
4	120000	0.9259	111111

5	120000		1	120000

Step 3 liability sheet of PVDBO

year	op. bal	+ Int @ 8%	+ CSC	= cl. bal
1	—	—	88203	88203
2	88203	7056	95259	190512
3	190512	15241	102881	308629
4	308629	24690	111111	444427
5	444427	35573	120000	600000

Question# 15

A lumpsum benefit equal to 1% of final salary for each year of service, is payable on termination of service. The salary in 1st year is ₹ 10,000 and it is assumed to increase @ 7% per annum resulting in ₹ 13,100 at the end of 5th year. Discounting factor is 10%.

Prepare PVDBO A/c

Soln :-

Step 1 Annual DBO

a) Salary last drawn = 13100

b) DBO = 13100 × 1% × 5 = ₹ 655

c) Annual DBO = $\frac{655}{5}$ = ₹ 131

H.W. :-

2) Changes in actuarial assumption

Meaning

Such as change in

a) Death Rate

b) employee t/o

c) Salary increase rate

d) Discounting rate

Measurement.

a) Due to Δ in any assumption.

Balance of PVDBO is recomputed with revised data.

b)

Revised bal. of PVDBO	xxx
Old bal. of PVDBO	xxx
actuarial g/loss.	xxx

is recognised in OCI (NR)

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 Annual DBO

a) Salary last drawn = ₹ 100000

b) gratuity promised (DBO) = ₹ 100000 × 2% × 3yr = 6000

c) Annual DBO $= \frac{6000}{3\text{ yr}} = ₹\ 2000$

Step 2 Calⁿ of C.S.C.

year	Annual DBO	PVF@10%	CSC	PVF@9%	CSC
1	2000	0.826	$\boxed{1653}$	0.841	1683
2	2000	0.909	1818	0.917	$\boxed{1835}$
3	2000	1	2000	1	2000

Step 3 Liability sheet

year	Op. Balance	$\boxed{\text{Int@9\%}}$	CSC	Cl. bal.
1	—	—	1683	1683
2	1683	151	1835	$\boxed{3669}$
3	3669	331 (B/f)	2000	6000

Step 4. A/cing.

PV DBO

To Bal. c/d	1653	yr1	By CSC	1653
		yr2	By Bal. b/d	1653 $\xrightarrow{30}$ 1683
			By Int. (1653 × 9%)	149 $\xrightarrow{2}$ 151

To bal. c/d. (Revised)	3669.		By CSC (new)	1835
			By act. loss.	32 (B/f)
To bank	6000	yr3	By Bal. B/d.	3669
			By int.	331
			By CSC	2000

Question# 18

1. Salary ₹ 3,00,000
2. Gratuity promised 2% for each year of service
3. Salary escalation clause at the time of appointment 9% for 1st time in 2nd year and 11% from 3rd year
4. Discounting rate 12% and changed it to 8% from 3rd year
5. Period of service 5 years

Prepare PVDBO A/c

Soln :- Step1 :- Caln of Annual DBO

1) Salary last drawn = ₹ 300000 × 1.09 × 1.11 × 1.11 × 1.11
= ₹ 447215

2) DBO = 447215 × 2% × 5 yrs
= 44722

3) Annual DBO = $\frac{44722}{5}$ = 8944

Step2 Cal of CSC

yr	annual DBO	PV@ 12%	CSC	PV@ 8%	CSC
1	8944	0.6355	$\boxed{5684}$	0.7350	6574
2	8944	0.7118	$\boxed{6366}$	0.7938	7100
3	8944	0.7972		0.8573	$\boxed{7667}$
4	8944	0.8929		0.9259	8281
5	8944	1		1	8944.

Step3 Liability sheet of DBO @ Revised terms

year	op. bal.	Int. @ 8%	CSC	cl. bal.
1	—	—	6574	6574-
2	6574	526	7100	14200
3	14200	1136	7667	23003
4	23003	1840	8281	33125
5	33125	2653	8944	44722

Step 4 Alcing

PVDBO

yr1	To bal. c/d	5684	yr1	By csc (old)	5684
yr2	To bal.	12732	yr2	By Bal. B/d	5684
				By csc (old)	6366
				By int. @ 12%	682

(5684×12%)

Yr3	To bal c/d (New)	23003	Yr3	By Bal. B/d	12732. 1468 14200
				By int@8% (12732×8%)	1019 117 1136
				By CSC (New)	7667
				By actuarial loss (B/f)	1585
Yr4	To Bal. c/d.	33124	Yr4	By Bal. B/d	23003
				By int@8%	1840
				By CSC	8281
Yr5	To bank	44722	Yr5	By Bal. B/d	33124
				By int	2653
				By CSC	8944.

3) Past service Cost (PSC):- increase in P.S.C.

- Meaning
  - increase in the
- Vested PSC
  - → it means employee
- Unvested PSC
  - → it means employee

amount of OBO due to increase in promised %.

eg→ earlier employees were entitled to gratuity of 1%. but Now they are entitled to 1.5%.

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

This vested PSC is Created through P/L of C.Y. Since it is treated as an Δ in a/c'ing estimated.

are entitled to the benefits arising in the plan after few years.

→ This unvested PSC is also Created through P/L since it is due to Δ in a/c'ing estimate.

PSC (P/L) Dr
To PVDBO

eg→

Sr. period is 5 years.

For some employee service period is | date of Change | for some employee entire Sr. period

Over on date of change. → Vested

for some employee

is not over. → Unvested.

Part of ser. period is over → Vested

part of ser. period is not over. → Unvested.

Question# 19

1. Pension 2% of final salary after 5 years
2. On 1.01.07 - the entity improves pension to 2.5% of final salary from 1.1.03
3. **Details** INCREASE IN PVDBO

Employee with more than 5 years on 1.1.07	₹150	(vested)
Employee with less than 5 years on 1.1.07	₹120	(unvested)

Journalise

Soln :-

PSC (P/L) Dr 270
To PVDBO 270

Question# 20 **{Adopted RTP – MAY – 2019}**

ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1st April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by ₹ 80 million. Given below is the composition of this amount:

Employees with more than 5 years' of service at 1st April, 2015	₹ 60 million	vested
Employees with less than 5 years' of service at 1st April, 2015	₹ 20 million	unvest.

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.

Comment on the treatment of ₹ 80 million of the defined benefit obligation in the financial statements

Solⁿ:-

PSC (P/L) Dr 80
To PVDBO 80

AS-15
Vested PSC (P/L) 60
Unvested PSC (P/L) 20
To PSC 80

Amortise over 2.5 years.

Under AS 15, a past service cost of ₹ 60 million needs to be recognized immediately, as those benefits are already vested. The remaining ₹ 20 million cost is recognized on a straight line basis over the vesting period, i.e., period to two and half years commencing from 1st April, 2015.

Under Ind AS 19, the entire past service cost of ₹ 80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

Question# 21	
1. Salary	₹ 5,00,000
2. Gratuity	10% of the salary
3. Remaining service period	4 years
4. Discounting factor	10%
5. Gratuity increased	by 1% at the beginning of 3rd year
Prepare PVDBO A/c	

Solⁿ:-

Step1 Annual DBO

a) Salary last drawn = ₹ 500000

b) Gratuity = 500000 × 10% = 50000

c) Annual DBO = $\frac{50000}{4}$ = 12500

Step2 Calⁿ of C.S.C.

year	Annual DBO	PV F@10%	CSC
1	12500	0.7513	9388
2	12500	0.8264	10325

3	12500	0.9091	11363
4	12500	1	12500

Step3 Liability sheet of PVDBO

year	op. bal.	Int @ 10%	CSC	cl. bal.
1	—	—	9388	9388
2	9388	939	10325	20652
3	20652	2065	11363	34080
4	34080	3420	12500	50000

Blf.

Step4 calⁿ of PSC.

Increase in gratuity = 5L × 1% = 5000

∴ in yr 3 PSC (P/L) Dr 5000
To PVDBO 5000

Step5 a/cing.

PVDBO

To bal. c/d	9388	yr1	By CSC	9388
To bal. c/d	20652	yr2	By Bal. B/d	9388
			By int	939

		By C.S.C.	10325
To bal C/d	39080	yr3 By Bal. B/d	20652
		By int.	2065
		By CSC	11363
		By PSC (P12)	5000
		yr4 By Bal. B/d	39080
		By Int.	3420
To bank	55000	By CSC	12500

~~LDR~~.

Question# 22

Salary is ₹ 1,00,000 per annum. The company had a policy of increasing salary @ 10% per annum, in second year of service and thereafter @ 15% per annum. Gratuity promised was 5% of salary last drawn for each completed year of service. The company due to huge profits in 3rd year increased gratuity by 2%.

The company's growth was due to favourable market conditions because of which actuary who had estimated discounting factor @ 10% per annum had to increase it to 12% per annum from 2nd year. Remaining service life is 5 years

You are required to

1. Prepare PVDBO Account
2. Calculate Actuarial gain or loss
3. Journalise the impact on past service cost, if any.

Solⁿ :- Step 1 Annual DBO

a) Salary last drawn = 1L × 1.1 × 1.15 × 1.15 × 1.15
= 167296

b) gratuity promised (DBO) = 167296 × 5% × 5
= 41824

(c) Annual DBO = $\frac{41824}{5}$ = 8365

Step2 Calⁿ of C.S.C.

year	Annual DBO	DF@10%	CSC	DF@12%	CSC
1	8365	0.683	$\boxed{5713}$	0.636	5320
2	8365	0.7513		0.712	$\boxed{5956}$
3	8365	0.8264		0.797	6667
4	8365	0.9091		0.893	7470
5	8365	1		1	8365

Step3 Liability sheet of PV DBO @ Revised rate.

year	op.bal.	+ Int@12%	+ C.S.C.	= cl.bal
1	—	—	5320	5320
2	5320	638	5956	11914
3	11914	1430	6667	20011
4	20011	2401	7470	29882
5	29882	3577	8365	41824

Step4 Calⁿ of PSC.

Increase in PSC = 167296 × 2% × 5 yrs.

= 16730

(iii) PSC (PIL) Dr 16730

To PVDBO 16730

Steps calcing

(i) PVDBO

To bal. c/d.	5713.	yr1	CSC		5713.
To act. gain	441	yr2	By Bal. B/d.		5713
(ii)			By Int		686
			(5713 × 12%)		
To bal. C/d (as per liability sheet)	11914.		By CSC		5956
		yr3	By Bal. B/d		11914.
			By Int @12%		1430
			By CSC		6667
To bal. C/d	36741		By PSC		16730
		yr4	By Bal. B/d		36741
			By Int.		2401
To bal. C/d	46612		By CSC		7470
		yr5	By Bal. B/d		46612

To bank 58554 | By Int. 3577
By CSC 8315

HD MENTORING HARSHIT DWIVEDI

4) Curtailment :-

Due to continuous losses DBO is stopped → No further CSC + Int.

Unvested PVDBO a/c is trf to P/L
⇓
PVDBO Dr
To P/L

Vested PVDBO Balance is paid
⇓
PVDBO Dr
To Bank
(Diff. = g/L on settlement which is trf. to P/L a/c)

Question# 23

X ltd discontinues the business segment and employees of discontinued operations earn no future benefits. This is a curtailment because employee will continue to receive benefits for services before discontinuance. Other details are

1. PVDBO balance	2,000
2. Unamortised past service cost	60 ⇒ Ignore.
3. Reduction in obligation by 10% of the gross obligation	

Journalise

Soln :-

PV DBO Dr 200
To P/L 200
(10% of 2000)

Stage II

Plan Assets ⇒ @ F.V.

↓

It is an investment plan for meeting DBO.
It is recognised at F.V.

P.A.

To b/d	xxx	By Bank (b) (benefit paid to employee on retirement/ (curtailment))	xxx
To bank (fresh cont.)	xxx (a)		
To Return	xxx		
To Actuarial gain	xxx	By Bal. c/d	xxx

Return

e% × op. bal.
+ i% × (a−b)

⇓

Actual Return

↓

Return	xxx
Act. gain (due to Δ in FV)	xxx
	xxx

eg ⇒ Principal = ₹ 100
Int = 10% p.a.
Compound half yearly.

1-1-25 principal = 100
30-6-25 Int @ 5% = 5
105

1%.

Total int. = 10.25 on

31-12-26 Int@ 5% $\frac{5.25}{110.25}$ ₹ 100

$\therefore$ E.R.I = 10.25%

e%

Or

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

Question# 24

Calculate Fair Value of Plan Assets from the following information:

1.	FV at the beginning	₹ 7,00,000
2.	Contribution	₹ 1,00,000
3.	Actual Return	₹ 50,000
4.	Benefit Paid	₹ 40,000

Soln :-

Plan Assets.

To bal. b/d	700000	By Bank	40000
To Bank	100000		
To A. Return	50000	By Bal. c/d.	810000

Question# 25

1.	Benefit paid	₹ 2,00,000
2.	Employee's Contribution	₹ 2,80,000
3.	FV as on 31.3.09	₹ 11,40,000
4.	FV as on 31.3.08	₹ 8,00,000
	Calculate Actual Return.	

Soln :-

Plan assets.

To bal. b/d	800000	By Bank	200000
To Bank	280000		
To Actual			

Return. 260000 | By Bal. c/d. 1140000

Question# 26	
FV as on 1.4.08	₹ 1,00,000
Benefits paid ₹	₹ 19,000
Contribution	₹ 49,000
FV as on 1.4.09	₹ 1,50,000
Other Details	
Interest and Dividend	9.25%
Realised gain on plan Assets	2.00%
Administration cost	(1.00%)
Therefore expected ROI	10.25% → e%.

∴ i% = 5%.

Solⁿ :-

Plan Assets.

To bal. b/d	100000	By Bank	19000
To bank	49000		
To Return			
Op. bal (1L × 10.25%) 10250			
Net incr (49K − 19K) × 5% 1500	11750		
To Actuarial gain.	8250	By Bal. c/d.	150000

Actual Return = 11750 + 8250
= 20000.

Stage III
Presentation in f/s.

Step1 :- Prepare PV DBO a/c

Step2 :- Prepare Plan assets a/c

Step3 :- Net finance cost

Int. on PVDBO	xxx
Int. on P.A.	(xx)
	xxx

Step4 :- Remeasurement.

act. gain/loss on PVDBO	xxx
act. gain/loss on P.A.	(xx)
OCI (NR)	xxx

Step5 :- Statement of P/L

P/L

EBE

CSC	xxx	
PSC	xxx	
Net finance cost	xxx	
G/L on settlement.	xxx	xxx

P. A. sold to pay benefits. xxx ←

– Benefits paid. xxx

G/L xxx OCI N.R.

PVDBO Dr
To P.A.

Remeasurements

xxx

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CA FOUNDATION | CA INTERMEDIATE | CA FINAL

Step 6 Balance sheet.

Equity & Liabili

Non C.L.

Long term Borrowings.

PVDBO	xxx	
− PA.	(xx)	xxx

Note 1:- P.A means closing f.v. of P.A.

Note 2:- if P.A. > PVDBO

⇓

Net defined Asset / surplus.

1) PA − PVDBO

2) arise from
a) extra Contrib. in P.A.
b) f.v. of PA has gone very high

3) In such a Situation Surplus should be recorded at lower of
→ amount of surplus
→ Asset ceiling.

Note-3 :- Asset ceiling

Meaning

maximum amount of surplus that can be shown in B/S.

Measurement

PV of savings in future contributions.

Or

P.V. of Refunds from PA.

↓

Sell inv. in future

Recognition

Suppose

PA	xxx
PVDBO	(xx)
Surplus	20
Ass. Ceili	18

Then show in

→ B/S. Surplus 18

→ P/L (RBE) 2

Question# 27
X limited has net pension asset in its balance sheet of 30,00,000. It therefore anticipates that it will not pay its usual contribution for next few years. It is estimated that PV of the future reduction in contribution will 26,00,000
Explain how pension asset will be treated in balance sheet.

Soln :-

Net pension asset (surplus)	3000000
asset ceiling	2600000

Hence in B/S. ⇒ Non C.A.

⇒ Other Non C.A.

↳ P.A @ ₹ 26 Lacs.

in P/L ⇒ E.B.

⇒ Disclose decline in Net P.A by ₹4L due to Ass. Ceiling.

Question# 28 **{MTP – SERIES - I – NOV 2019}**

RKA Private Ltd is an old company established in 1995. 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 1stApril, 20X1 and 31st March, 20X2. Rs.in lacs.

Particulars	1st April,20X1	31st March, 20x2
Present value of benefit obligation	1,400	1,580
Fair value of plan assets	1,140	1,275

For the financial year ended 31st March, 20X2, service cost was ₹ 55 lacs. The company made a contribution of an amount of Rs. 111 lacs to the plan on 31.3.20X2. No benefits were paid during the year.

Consider a discount rate of 8%.

As per Ind AS, you are required to -

1. 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.
2. Give the journal entries in respect of amount(s) to be recognized.

Soln :- Step 1 PVDBO a/c

	By Bal B/d 1400
	By Int 112 (1400 × 8%)
	By CSC 55
To bal. c/d 1580	By A loss 13

Step 2 Plan Assets

To bal. b/d 1140	By A. loss 67
To bank 111	
To Return 91 (1140 × 8%)	
	By Bal. c/d 1275

Step 3 Net finance Cost

Int. on PVDBO	112
Int. on P.A.	(91)
	21

Step 4 Remeasurements.

A. loss on PVDBO	13
A. loss on P.A.	67
	80

Step 5 B/S.

Net defined Liability.

PVDBO	1580	
− PA.	(1275)	305

Step 6 SPL.

P/L

EBE

CSC	55	
Net FC	21	76

OCI

Remeasurements.	80

Step 7 Journal.

i) Int Dr 112
CSC Dr 55
A.L Dr 13
To PVDBO 180

ii) P.A. 202
To Bank 111
To int 91

iii) AL Dr 67
To PA 67.

Question# 29 **{RTP – NOV – 2018 & 2019}**

A Ltd. prepares its financial statements to 31st March each year. It operates a defined benefit 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, 2017, the actuaries advised that the present value of the defined benefit obligation was ₹ 6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was ₹ 5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of ₹70,00,000 into the plan and the plan paid out benefits of ₹ 42,00,000 to retired members. Both these payments were made on 31st March, 2018.

The actuaries advised that the current service cost for the year ended 31st March, 2018 was ₹ 62,00,000. On 28th February, 2018, 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 ₹ 15,00,000 from that date.
During the year ended 31st March, 2018, 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 ₹80,00,000. Before 31st March, 2018, A Ltd. made payments of ₹ 75,00,000 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, 2018, the actuaries advised that the present value of the defined benefit obligation was ₹ 6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were ₹ 5,60,00,000.
Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS

PVDBO 80
To B. 75
To GOS 5

Bank
To PA
75.

(₹ in 000)

Sol^n :-

Step 1 PVDBO

To Bank	4200	By Bal. B/d	60000
To Bank	7500	By Int (5% of 60k)	3000
To G.O.S. (8000 − 7500)	500	By CSC	6200
To Bal. C/d.	68000	By PSC	1500
		By A.L.	9500

Step 2 Plan Assets.

To bal. b/d	52000	By Bank	4200
To bank	7000	By Bank	7500
To Int. (52000 X 5%)	2600		
To A. G.	6100	By Bal. C/d	56000

Step 3. Net finance cost.

Int on PVDBO	3000
Int. on PA	2600
	400

Step 4 Remeasurement.

A. loss on PVDBO	9500
A. gain on PA	(6100)
	3400

Step 5 B/S.

N. B. L.

PVDBO	68000	
PA.	56000	12000

Step 6 SOPL.

P/L

EBE.

CSC	6200	
PSC	1500	
NFC	400	
GOS	(500)	7600

OCI

Remeasurement. 3400

Question# 30

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:

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

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%.

As per Ind AS 19, please suggest if there is any amount based on the above mentioned information that would be taken to other comprehensive income (with workings). → Rem.

Also compute net interest on the net defined benefit liability (asset).

Sol^n :- Step 1 PVDBO

To Bank	300	By Bal. Bld	12000
		By Int. (10% of 12k)	1200
		By CSC	2500
		By A.L.	100
To Bal. Cld	15500		

Step 2 PIA.

To bld	10000	By bank	300
To bank	3000		
To Return (10000×10%)	1000		
To A.Gr.	1000	By Bal. Cld.	14700

Actual Return.

Step 3 N.F.C.

Int. on PVDBO = 1200

Int on P.A. = 1000

200

Step. 4. Remeasurement.

A. loss. on PVDBO 100

A. Gain on P.A. 1000

OCI (NR) 900

Question# 31

Following information is available for XYZ Ltd:

On 1 April 20X1,

- The fair value of the assets defined benefit plan were valued at ₹ 20,40,000
- Present value of the defined obligation was ₹ 21,25,000.

On 31st March,20X2

- Received contributions of ₹ 4,25,000
- Paid out benefits of ₹ 2,55,000
- The current service cost is ₹ 5,10,000

At 31 March 20X2

The fair value of the plan's assets was ₹ 23,80,000,
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.
An interest rate of 5% is to be applied to the plan assets and obligations.
Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet?

Solⁿ :-

Step1 PVDBO

To bank 255000	By Bal. Bld. 2125000
	By int. 106250 (2125000 x 5%)
	By CSC 510000
	By AL. 233750
To bal. Cld. 2720000	

Step2 P/A.

To bal. bld 2040000	By Bank 255000
To bank 425000	
To Return 102000 (2040000 x 5%)	
To A.G 68000	
	By Bal. Cld 2380000

Step3 NFC.

Int on PVDBO	106250
Int on P.A	102000
	4250

Step4 Remeasurement.

A.L. on PVDBO	233750
A.G on PVDBO	(68000)
OCI. NR.	165750

Steps B/S.

N.D.B.L.

PVDBO	2720000	
P.A	2380000	340000

Step6 SOP/L.

P/L

EBE.

CSC	510000
NFC	4250

OCI

Remeasurement. 165750

#6 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.).

Journal Entry

Termination Benefits A/c	Dr	XXX – (P or L)
To Cash/Bank A/c		XXX

Similar to Q.29. of text book

QUESTION: -2 (8 Marks)

Based on the advice from actuaries regarding contribution levels and overall liabilities of the defined benefit retirement plan to pay benefits to past and present employees, the Accountant Mr. Krishna of TUNA Limited provides the following information:

i. On 1st April, 2023, the actuaries of the company advised that the present value of the defined obligation was Rs.2,88,420. On the same date, the fair value of the assets of the defined benefit plan was Rs. 2,49,670 and the annual market yield on government bonds was 8%.

ii. During the year ended 31st March, 2024, TUNA Limited made contributions of 33,650 into the plan and the plan paid out benefits of Rs. 20,160 to retired members. Both these payments were made on 31st March 2024

iii. The actuaries advised that the current service cost for the year ended 31st March, 2024 was 29,760. On 28th February 2024, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined obligation was increased by ₹7,280 from that date.

iv. During the year ended 31st March, 2024, TUNA Limited 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 Rs.38,390. Before 31st March, 2024, TUNA Limited made payments of Rs.36,270 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.

v. On 31st March, 2024, the actuaries advised that the present value of the defined benefit obligation was Rs. 3,26,480. On the same date, the fair value of the assets of the defined benefits plan were Rs. 2,68,340.

Examine and present how the above events would be reported in the financial statements of TUNA Ltd. for the year ended 31st March, 2024 as per Ind AS. Please note that the finance cost is to be computed on the opening balance.

Answer:- Remeasurement of gain loss

	₹
Liability at the start of the year (₹3 2,88,420 -₹3 2,49,670)	38,750
Current service cost	29,760
Past service cost	7,280
Net finance cost	3,100
Gain on settlement	(2,120)
Contributions to plan	(33,650)
Benefits paid	NIL
Remeasurement loss (balancing figure)	15,020
Liability at the end of the year (₹3,26,480 - ₹2,68,340)	58,140

On 31st March 2024, Tuna Ltd. will report a net pension liability in the balance sheet. The amount of the liability will be ₹ 58,140 (₹ 3,26,480 ₹2,68,340).

For the year ended 31st March 2024, Tuna Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be ₹ 29,760. The same treatment applies to the past service cost of ₹ 7,280.

For the year ended 31st March 2024, Tuna Ltd. will report a finance cost in profit or loss at the start of the year of ₹ 38,750 (₹ 2,88,420 - ₹ 2,49,670). The amount of the finance cost will be ₹ 3,100 (₹38,750 x 8%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of ₹2,120 (₹ 38,390 - ₹36,270) will be reported in the statement of profit and loss.

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

For the year ended 31" March, 2024, the remeasurement loss will be ₹ 15,020 (Refer above table).

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

Current service cost	29,760
Net interest on net defined liability (₹23,074 - ₹ 19,974)	3,100
Gain on settlement (₹ 38,390 - ₹ 36,270)	2,120

Defined benefit re-measurements recognised in Other Comprehensive Income: ₹

Loss on defined benefit obligation	(36,496)
Gain on plan assets	21,476
Gain on remeasurement	(15,020)

In the Balance Sheet, the following will be recognised: ₹

Net defined benefit liability (₹ 3,26,480 - ₹ 2,68,340)	58,140

5. 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**	
	31st Dec. 20X2	31st Dec. 20X1	31st Dec. 20X2	31st 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)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)

Cl. bal.

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

	Defined benefit obligation (₹ in lakhs)		*Plan Assets (₹ in lakhs)*	
	31st Dec 20X2	*31st Dec 20X1*	*31st Dec 20X2*	*31st 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)
Investment income	-	-	1.47	1.12
Employers' contribution	-	-	8.00	7.00
Return on plan assets	-	-	2.12	(0.35)
Balance at the end of year	75.07	63.25	33.39	21.81*

*Difference is due to approximation.

In the BALANCE SHEET, the following will be recognised:

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

= ₹ 41.44 lakhs (₹ 63.25 lakhs - ₹ 21.81 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)**	
	31st Dec., 20X2	**31st Dec., 20X1**	**31st Dec., 20X2**	**31st Dec., 20X1**
Current service cost	5.84	4.97	-	-
Interest cost	4.27	3.56	-	-
Investment income	-	-	(1.47)	(1.12)
Total	10.11	8.53	(1.47)	(1.12)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X1 = ₹ 7.41 lakhs (₹ 8.53 lakhs - ₹ 1.12 lakhs)

Expense to be recognised in the Statement of Profit and Loss for the period ending 31st December, 20X2 = ₹ 8.64 lakhs (₹ 10.11 lakhs - ₹ 1.47 lakhs).