

AS 15: Employee Benefits

(Not Applicable on Employee Share Based Payments)

Employee: Contract of Service → Can be Full time, part time, casual / temporary, permanent, etc.

Employee Benefits: * All forms of consideration for services rendered that are provided under

Formal Agreement

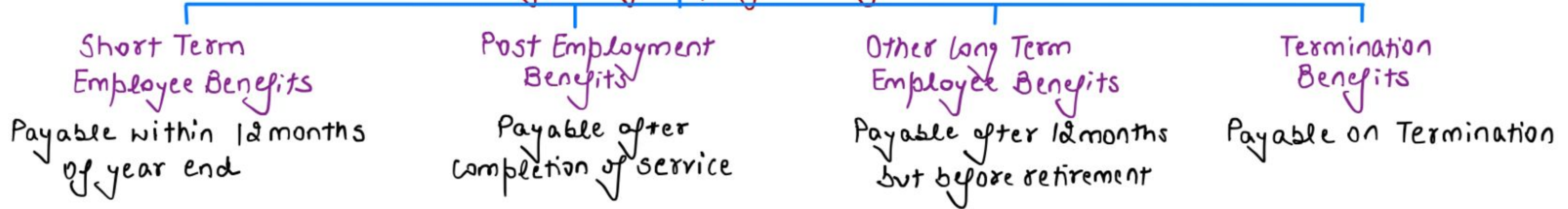
Informal Practices
(E.g. Diwali Bonus)

Legislative Requirement
(E.g. Provident Fund)

* Can be paid in cash or in kind

* Include benefits provided to employee, spouse, children or other dependents.

Types of Employee Benefits



Short Term Employee Benefits

* Recognise expense on undiscounted basis i.e. absolute amount.

* It includes wages & salaries, Profit sharing & Bonuses, Leave compensation and non monetary benefits

Wages & Salaries

Salary is Accrued & paid

Salary A/c - Dr
To Bank A/c

Salary is Accrued & Not Paid

Salary A/c - Dr
To Salary O/s

Salary is Paid in Advance

Prepaid Salary A/c - Dr
To Bank A/c

Leave Compensation / Short Term Compensated Absences

Employer generally provides various types of leaves like casual leave, sick leave, earned leave etc.

Accumulating paid absences: Leaves if unutilised can be carried forward to the next year.

Vesting

Cash payment for unutilised entitlement

1) When Leaves are Accrued (Earned)

Leave Compensation A/c - Dr

To Provision for Leave Compensation A/c

(No. of Employees × No. of unused Leaves × Salary/day)

2) When Payment is made next year

Provision for Leave Compensation A/c - Dr

To Bank A/c

Non vesting

Entitled to excess leaves for unutilised entitlement

1) When Leaves are Accrued (Earned)

Leave Compensation A/c - Dr

To Provision for Leave Compensation A/c

(No. of Employees × No. of unused Leaves × Salary/day)
expected to be utilised

2) Salary paid next year for that year & liability Adjusted

Salary A/c - Dr

Provision for Leave Compensation A/c - Dr

To Bank A/c

Non Accumulating paid absences: No Accounting Treatment as leaves if unutilised cannot be carried forward

Profit sharing & Bonus: Recognise expected costs as expense if entity has present obligation as result of past event & reliable estimate can be made.

Bonus (share of Profit) = Profit earned during year X Expected Payout (%) as Profit share

When Bonus is Accrued

Bonus A/c - Dr
To Provision for Bonus A/c

When Bonus is Paid

Provision for Bonus A/c - Dr
To Bank A/c

Post Employment Benefits

Defined Contribution Plans (DCP)

Employer pays fixed contribution into a separate fund & have no obligation to pay further payments after employee's retirement. Recognise expense based on actual contribution. Actuarial risk & investment risk fall on employee & not on entity. E.g. Provident Fund, Pension Fund etc.

When Amount is Accrued

Provident Fund Expense A/c - Dr
To Provident Fund Payable A/c

When Amount is Paid

Provident Fund Payable A/c - Dr
To Bank A/c

Note: If payment is due beyond 12 months from balance sheet date, it should be recorded at present value.

Defined Benefit Plans (DBP)

In this case entity is obligated to provide the agreed upon benefits directly to employees after their employment ends. Actuarial risk & investment risk fall on entity & not on employee. Detailed actuarial calculation is performed to determine the charge. E.g. Gratuity, Leave salary, settlement allowance etc.

Defined Benefit Plans:

- 1) Defined Benefit Obligation
- 2) Current Service Cost
- 3) Interest Cost
- 4) Actuarial Gain/Loss on DBO
- 5) Past Service Cost

- 6) Plan Assets
- 7) Expected Return on Plan Assets
- 8) Actuarial Gain/Loss on Plan Assets
- 9) Curtailment & Settlement
- 10) Net Defined Benefit Liability/Asset

1) Defined Benefit Obligation (DBO) (Liability)

- a) Calculate Total Benefit to be paid to employee post retirement
 $\text{Expected Final Salary p.a.} \times \text{Benefit (\%)} \times \text{No. of years of service}$
- b) Calculate Allocated benefits attributed to each year of service
 $\frac{\text{Total Benefits to be paid}}{\text{No. of years of service}}$

2) Current Service Cost (Expense)

Amount in 1(b) \times P.V.F. of each year (Take PVF in reverse manner)

Current Service Cost (Expense) A/c - Dr
To DBO A/c (Liability)

3) Interest Cost (Expense)

Opening Balance of DBO \times Discount Rate (Make Table)

Interest Cost (Expense) A/c - Dr
To DBO A/c (Liability)

Note: Method used to determine Expense & Liability is Projected Unit Credit Method

4) Actuarial Gain/Loss on DBO

Change in DBO Liability as calculated by Actuary due to change in financial or demographic assumptions like Salary Increment, No. of years of service, Discounting rate etc.

Any Gain/Loss to be immediately recognised in P&L.

5) Past Service Cost

Change in DBO Liability resulting from plan amendment i.e. Changing Benefit % in Plan

For Benefits to be vested: Defer over a period

For Benefits already vested: Recognise immediately.

Past Service Cost A/c - Dr
To DBO A/c

6) Plan Assets (Asset)

Assets which are created (invested) exclusively to fund the DBO. These are measured at **Fair value** at each year end.

Plan Assets A/c (Asset) Dr
To Bank A/c

Reverse entry for withdrawal of funds from Plan Assets.

7) Expected Return on Plan Assets

Rate is calculated based on management estimate. If silent, assume contributions & Benefits paid are in middle of year.

Plan Assets A/c - Dr
To Interest Income A/c

8) Actuarial Gain / Loss on Plan Assets

$$\text{Opening Plan Assets (Fair value)} + \text{Contributions} - \text{Benefits Paid} + \text{Actual Return (Bal. fig.)} = \text{Closing Plan Assets (Fair value)}$$

$$\text{Actuarial Gain/Loss} = \text{Actual Return} - \text{Expected Return}$$

9) Curtailment/Settlement

When employer reduces no. of employees or benefits under plan. **Eg. Discontinuance of business segment**
Gain/Loss to be recognised in P&L A/c.

Reduction in Gross Obligation	xxx
- Proportionate reduction in UPSC (Unamortised Past service cost)	(xxx)
Gain on curtailment	<u>xxx</u>

DBO A/c - Dr
To UPSC A/c
To Gain on curtailment (P&L)

10) Net Defined Benefit Liability / Asset (Disclosure in Balance Sheet)

Closing Balance of DBO	xxx
- Unamortised Past service cost (if any)	(xxx)
- Closing Balance of Plan Assets	(xxx)
Net Defined Benefit Liability / (Asset)	<u>xxx / (xxx)</u>

If -ve, then Reported Amount would be Lower of
a) Amount calculated or
b) Present value of Refund from plan

DBO/ Provision for DBO A/c

To Benefits Paid (Paid on settlement)	xx	By Bal b/d	xx
To Actuarial Gain	xx	By Current service cost	xx
To Bal c/d	xx	By Interest costs	xx
		By Past service cost	xx
		By Actuarial loss	xx
	xx		xx

Plan Assets A/c

To Bal b/d	xx	By Benefits Paid (Withdrawal)	xx
To Contribution	xx	By Actuarial loss	xx
To Expected Return	xx	By Bal c/d (Fair Value)	xx
To Actuarial Gain	xx		
	xx		xx

Other Long Term Employee Benefits

Example: Long Term Compensated Absences such as sabbatical leave, Profit sharing & bonuses, Jubilee awards, Long Term Disability Benefits etc.

Accounting Treatment same as of Post Employment Benefits.

Termination Benefits

It results from either an entity decision to terminate employment or employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

Example: Voluntary Retirement scheme, Retrenchment Compensation, etc.

Recognised as expense & liability when termination plan is approved & reliable estimate can be made.

When Accrued

Retrenchment Compensation A/c - Dr
To Retrenchment Compensation Payable A/c

When Paid

Retrenchment Compensation Payable A/c - Dr
To Bank A/c

Note: If payment is due beyond 12 months from balance sheet date, it should be recorded at present value.