AS 15 – Employee Benefits

1) Types of Employee Benefits

- **Short Term E.B.**
  - Salary
  - Incentives
  - Overtime
  - Regular Bonus
- **Post Employement E.B.**
  - Retirement Benefits
    - Gratuity
    - Pension
    - PF
- **Other Long Term EB**
  - During Employement
  - eg.
    - → LT Bonus plan
    - → ESOPs
- **Termination Benefits**

2) Accounting for Post Employement Benefits & Other LT Benifits is Same. These Benefit are divided into Two Categories :–

- Defined Contribution plan (DCP)
- Defined Benefits plan (DBP)

For Difference Refer AS Trump pg. no. 16.4

3) DCP :– Here the annual Contribution by Employee is Fixed. Hence No Actuarial Services are required.

Amount of Contributions paid by Employee is directly transfer to P&L a/c.

Eg:- Suppose Salary Pm = 1,00,000   PF Contribution 12% by Employer & Employee

Salary Dr. 1,00,000
  To PF (Employee) 12000
  To Bank 88,000

PF Exp. a/c Dr. 12000 (P&L)
  To PF (Employer) 12000

This is accounting of DCP

PF (Employee) Dr. 12000
PF (Employer) Dr. 12000
  To Bank a/c 24000

4) Accounting For DBP :-

→ Defined means Fixed

→ Benefit means Final Amt. Payable to Employee (Employee की Jeb me Jo Jayega)

→ To pay Final Amt, Every year's Contribution by Employer may not be Fixed.

(Employer की Jeb से Kitna every year जायेगा)

→ Here, Actuarial Services are Required to estimate the following items :-

• Amt. of Contribution every year

- Return on Plan Asset
- Expense of Employee Service to be recognised
-
-

→ Under DBP, Accounting of these two items are required :-

1) DBO Payable a/c
   ↳ LT provision

2) Plan Asset a/c
   ↳ It is an Investment

5) Plan Asset Accounting

Plan Assets (Investment)

- Contribution to plan Asset (Amt. Invst. करना)
  ↓
  Plan Asset Dr.
  To Bank a/c
- Withdrawal from plan Asset for Paying Benefits
  ↓
  Bank A/c Dr.
  To Plan Assets
- Recognising Est. Return on plan Asset based on Actuarial estimate
  ↓
  Plan Asset Dr.
  To Est. Return a/c
  P&L
- Closing Plan Asset should be at Fair Value always
- Changes in Plan Asset
  ↓
  Actuarial Gain/Loss
  ↓
  P&L

Actual Return = Est. Return +/- Actuarial Gains/Losses.

Example 7: (Plan Assets)

FY 23-24

1/4/23	Opening Balance of Plan Assets	5,00,000/-
1/4/23	Contribution to Plan Assets	1,00,000/-
1/4/23	Benefits Paid out of Plan Assets	1,50,000/-
	Expected Return	12% p.a.
	Fair Value on 31/03/24	5,20,000/-

Solution -

Statement OF Plan Assets :-

Particulars		Amt.
1/4 Opng. Bal.		5,00,000
(+) 1/4 Contribution	Plan asset Dr. To Bank	1,00,000
(-) 1/4 Benefits Paid (Withdrawal)	Bank Dr. To plan Asset	1,50,000
1/4 Balance		4,50,000
(+) 31/3 Expected Return 450000 x 12%	Plan Asset Dr. To Exp. Return	54,000 (P&L)
31/3 Book value		504000
(+) Actuarial Gain		16,000 (P&L)
31/3 Fair value		5,20,000

* Actual Return = 54000 + 16,000 = 70,000

Plan Asset A/c

1/4 To Bal. b/d 500000	1/4 By Bank 1,50,000 (Withdrawal)
1/4 To Bank 100000 (Contribution)	
31/3 To Est. Return 54000	
To A. Gain (B/F) 16000	31/3 By Bal c/d 520000 (fair value)

Example 8:
Assume Same Example 7 above, with following Changes:
Date of Contribution made Benefits paid is 31/3/24. Prepare Plan Asset A/c

Plan Asset A/c

1/4 To Bal b/d 500000	31/3 By Bank 1,50,000 (withdrawal)
31/3 To Est. Ret 60,000 ($500000 \times 12\%$)	
31/3 To Bank 100000 (Contribution)	31/3 By Bal. c/d 5,20,000 (Fair value)
31/3 To Act. Gain 10,000	

Example 9:
Assume Same Example 7 as above But Date of Contribution & Benefits paid are on 1/10.
Prepare Plan Asset a/c

1/4 — 1/10 — 31/3

Op. 500000

Contr. = 100000

Benf. = (150000)

Calculation OF Estimated Return :-

a) Six Monthly Compounding Rate :-

$$\left(\sqrt{1+AR} - 1\right) \times 100$$

$$\left(\sqrt{1+0.12} - 1\right) \times 100 = 5.83\%$$

b) $500000 \times 12\% = 60{,}000$ (Return on opng.)

$50000 \times 5.83\% = (2{,}915)$ (Return on Net Contribution)

57085

Plan Asset

1/4 To Bal. 500000	1/10 By Bank 150000
1/10 To Bank 100000	
31/3 To Ex. Ret. 57085	
31/3 To Act. Gain 12915	31/3 By Bal. c/d 520000

Q.AS15.RMP.109: (Sep'24 EXAMS)

Pendora Ltd. Has given the following details in respect of employee benefit pension plan:

Particulars	Amount ₹
The fair value of plan assets as on 01-04-2023	5,00,000
The benefits paid out on 30-11-2023	63,000
Inward contributions received on 30-09-2023	1,42,000
The fair value of plan assets as on 31-03-2024	7,50,000

On 01.04.2023, the company made following estimates, based on its market studies and prevailing prices:

Particulars	%
Interest and dividend income (after tax) payable by fund	10.50
Realized gains on plan assets (after tax)	2.00
Fund administrative cost	-2.00
Expected rate of annual return (interest in compounded annually)	10.50

You are required to find the expected and actual returns on plan assets as on 31.03.2024 as per AS 15.

Exp. Return :-

1/4 Opng Bal. ⇒ 500000 × 10.50 % = 52,500

30/9 Contribution ⇒ 142000 × 10.50% × 6/12 = 7455

30/11 Withdrawal ⇒ (63000) × 10.5% × 4/12 = (2,205)

57,750

Statement OF Plan Asset :-

1/4 Opng. Balance	500,000
(+) 30/9 Contribution	1,42,000
(−) 30/11 Withdrawal	(63,000)
(+) 31/3 Exp. Return	57750
31/3 Book value	636,750
(+) Act. Gain (B/F)	1,13,250
31/3 Fair value	750000

Actual Return = 57750 + 113250 = 1,71,000

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6) How to Calculate Expected Return on Plan Asset

↓

It depends on date of Contribution & Withdrawal

Ex:-7 Contribution & Withdrawal made at Begining.

↓

Opng Bal
(+) Contribution
(−) Withdrawal

Total
× Est. Return (%)

Ex-8 Contribution & Withdrawal at end of year

↓

Op. Bal.
× Est. Return (%)

Ex-9 Contribution & Withdrawal at mid of year

↓

1st Est. Return = Opng. × Annual Rate

2nd Est. Return = Net Contribution × Halfyearly Rate

Contribution made (−) Withdrawal

Contribution & Withdrawal on different dates

↓

Calculate Est. Return on date wise (Refer Q109)

$$\text{* Half yearly Rate (\%)} = \left(\sqrt{1 + \text{Annual Rate}} - 1\right) \times 100$$

7) DBO Payable (Defined Benefit Obligation)

Step 1:- Calculate Estimated Defined Benefit :- → (Future Outflow)

Last drawn salary × Benefit (%) × No. of Years of Service

Step 2:- Calculate Allocated Benefits :-

$$\frac{\text{Step 1}}{\text{No. of Years}}$$

Step 3:- Calculate Current Service Cost :-

→ the amount of Bonus Benefit annually against Employee's Service

(a) Year	(b) Allocated Benefits	(c) PVF @ Dis. Rate	CSC (b×c)
1	XXX		
2	XXX		
3	XXX		
4	XXX		
5	XXX	1	

* Discounting Rate → Based on Interest Rate of Govt. Bonds → Market yeild.

Step 4:- Calculate Interest Cost (Finance Cost) of every year :-

Year	(a) Opng. DBO	(b) Interest	(c) CSC	d = a+b+c Closg DBO
1	0	0	XXX	XXX
2	XXX	XX	XXX	XXX

Example 4: (on Define Benefit Obligation)

An Entity announced Defined Bonus plan for its 50 employees. Bonus would be payable after serving 5 years (Long Term Benefit). The bonus amount would be 8% of Last drawn Salary after 5 years for each year of service. Discount Rate = 10 % p. a. Current Avg. Salary p.a. per Employee = 6,00,000/-. Salary Inflate Rate = 7 % p.a.

Show Accounting as per As 15.

Solution :-

Defined Benefit Plan = Defined Bonus = 8% of Salary for Each year of Service.

Step - 1:

Calculate Total Defined Benefit

Current salary	6,00,000/-
Expected Salary after 5 years Per Employee	(6,00,000 × 1.07) × 1.07 × 1.07 × 1.07 = 7,86,478/ -
Estimated Defined Benefit	7,86,478 X 8% X 5 YEARS X 50 No.
	1,57,29,552

Step - 2:

Calculate Allocated Benefits per year

Allocated Benefit	1,57,29,552 ÷ 5
	31,45, 901/-

Step - 3:

Calculate Current Service Cost (CSC)

Year	Allocated Benefits	PVF @10%	CSC
1	31,45,910	0.683	21,48,657
2	31,45,910	0.751	23,62,578
3	31,45,910	0.826	25,98,523
4	31,45,910	0.909	28,59,634
5	31,45,910	1	31,45,910

Step - 4

Calculation of Interest Cost

	1st	2nd	3rd	4th	5th
Opening Balance	0	21,48,657	47,26,101	77,97,234	114,36,591
Int. Cost (10 %)	0	2,14,866	4,72,610	7,79,723	11,47,051
CSC recognised at the End	21,48,657	23,62,578	25,98,523	28,59,634	31,45,910
Closing Bal	21,48,657	47,26,101	77,97,234	1,14,36,591	1,57,29,552

Journal Entry		
1st Year	Current Service cost a/c Dr.	21,48,657
	To Defined Benefit Obligation Payable (DBO) A/c	21,48,657
2nd year	Current Service Cost A/c Dr.	23,62,578 (P&L)
	Interest Cost A/c Dr.	21,48,657 (P&L)
	To DBO Payable A/c	25,77,444

8) Changes in DBO:-

a) Modification (Increase OF Benefit)

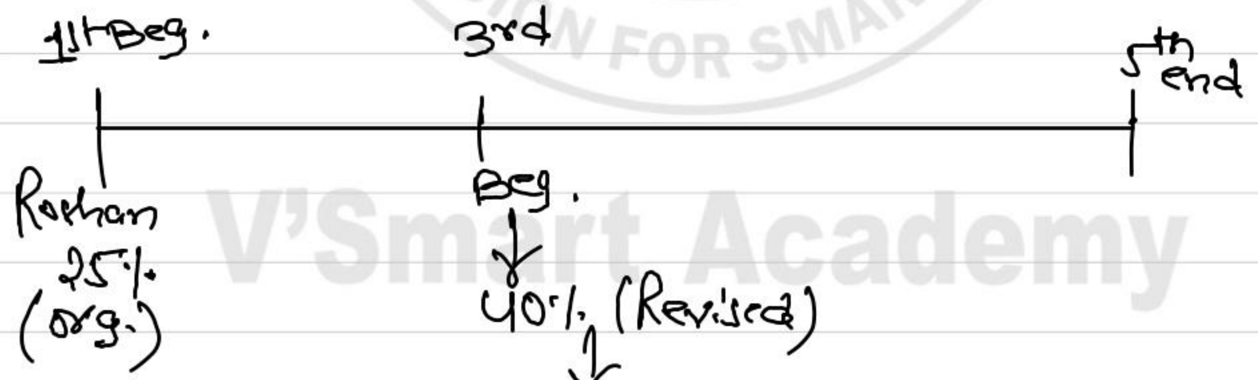
eg. earlier original Benefit announced is 10%. But after 2 years it is increased to 15%.

b) Curtailment (Reduction OF Benefits & DBO Liability)

eg. earlier Benefits were announced For all Employees Now For some Employees the Benefits are Cancelled

Curtailment may involve the settlement in Cash immediately.

Modification in DBO (Increase in Benefits)



25%

15% additional Benefit.

1800000

1	360 X X 0.735	=	264600
2	360 X 0.794	=	285840
3	360 X 0.857	=	308520
4	360 X 0.926	=	333360
5	360 X 1	=	360000

Step 4 IC

Year	OP	Int	CSC	C/o
1	0	0	264600	264600
2	264600	21168	285840	PSC 571608
3	571608	45729	308520	925857
4	925857	74068	333360	13,33,285
5	1333285	106715	360000	1800000

USC = 10,01,880

3rd Beg.

PSC Dr. 571608 (P&L)
USC Dr. 10,01,880 (D&A)
To DBO 15,73,488

$USC = \frac{1001880}{3} = 333960$

3rd end

P&L 333960
To USC 333960

Unamortised USC = 667920 Dr. Bal. → B/S

20Jan. Plan Ass. Dr.
32Jan. DBO Pay Cr.
667920 USC Dr.

B/S Extract

NCL	
LTP	532080
DBO 3200000	
(–) P.Ass. (2000000)	
(–) USC (667920)	

Modification in DBO
(Increase in Benefits)

a) If Benefit is Increased For Employee from retrospective effect, then additional Cost For Such Increased Benefits shall be Calculated.

b) These additional Cost are of Two types:-
(i) Past Service Cost (PSC)
(ii) Un-recognised Service Cost (USC)

c) Both PSC & USC amounts will be given in Question, only accounting entry is required :-

Under Employee Benf. Exp.

PSC (P&L) a/c Dr. 200000 } example
USC (D&A) a/c Dr. 300000 }
To DBO Payable 500000

d) USC shall be Deferred & Amortised to P&L over the remaining No. of years.

Every year ⇒ P&L Dr. 100000
To USC 100000

Un-amortised Portion of USC (i.e 200000) shall have Debit Balance & Shown in B/S as Under :-

BFS (extract)

Non Current Liab. :-

a) Long Term Provision — XXX

Cr. Bal.	DBO Payable	XXX
Dr. Bal.	(–) Plan Asset	(XXX)
Dr. Bal.	(–) Unamortised USC	(XX)

Note:- How to identify PSC & USC in Question

- additional Benefits Vested → PSC
- additional Benefits not yet Vested (Unvested) → USC

Curtailment OF DBO

Cancellation OF Benefit For Some Employees

1. DBO Liability shall be reduced → Amt. will be given in Question
2. Proportionate USC shall also be reduced → Amt will be given in Question
3. Compensation may be paid thru Bank → Amt. will be given. if not given assume Zero
4. Balancing Figure will be Gain on Curtailm.

DBO Payable A/c Dr.
To USC a/c (if any)
To Bank a/c (if any)
To Gain a/c (B/F)

Calculation of DBO Payable and Plan Asset

DBO Payable		Plan Asset	
Opening Balance of DBO	XXX	Opening Balance of Plan Asset	XXX
(+) Current Service Cost (CSC)	XXX	(+) Expected Return	XXX
(+) Interest Cost	XXX	(+) Contribution to Plan Asset	XXX
(+) Past Service Cost	XXX	(-) Payment of Benefits	XXX
(-) Curtailment of Benefits	XXX	(+/-) Actuarial Gain/(loss)	XXX
(-) Payment of Benefits	XXX	Closing Balance of Plan Asset	XXX
(+/-) Actuarial Loss/(Gain)	XXX		
Closing Balance of DBO	XXX		

Presentation in Financial Statements

BALANCE SHEET		STATEMENT OF PROFIT AND LOSS
Closing Balance of DBO	XXX	**Items of P&L:**
(-) Closing Bal. of Plan Asset	XXX	Employee Benefit Expenses
(-) Unamortised PSC	XXX	• Current Service Cost under Employee Benefit Exp. • Past Service Cost • Gain on Curtailment • Actuarial Gain/Loss on DBO • Actuarial Gain/Loss on Plan Assets • Amortisation of UPSC (SLM Basis)
Net Defined Liability/(Asset)	XXX	Finance Cost • Net Interest Cost under Employee Benefit Exp. (Net Interest Cost means Interest Cost on DBO less Expected Return on Plan Asset)

Other Important Points:

1. The discount rate shall be determined by reference to market yields at the end of reporting period on Government Bonds.

2. If nothing is specified in question always assume that contribution is made, and benefits are paid at end of the year.

Class Ex 1 on DBO

Bonus => 10% of Last drawn salary after 5 year
for each year of Service

Current Salary = 12,00,000 p.a. Per employee

Increase Rate = 6%
of Salary

First increment shall start from 2nd
yr Beg.

No. of Employees = 50 no.

Discounting Rate = 10%

Calculation of Defined Benefit :- (Step 1)

Last drawn Salary => 1200000 × 1.06 × 1.06 × 1.06 × 1.06

=> 15,14,972

Defined Benefit => 1514972 × 50 × 10% × 5

=> 3,78,74,310 Estimated

Payable after 5 years

Recognise expense every year based on Services received.

Step 2 :- Calculate Allocated Benefits of each year

$$\frac{3,78,74,310}{5} = 75,74,862$$

Step 3 :- Calculate Current Service Cost (Expense) of each year
CSC

Year	Allocated Benefits	PVF	CSC
1	75,74,862	0.683	51,73,630
2	"	0.751	56,88,721
3	"	0.826	62,56,836
4	"	0.909	68,85,550
5	"	1	75,74,862

$$\frac{1}{1.1} = 0.909 \text{ Today}$$

0.826 Today

0.751 Today

0.683 Today

0.621 Today

Step 4 :- Calculation of Interest Cost

Date	Opng.	Inter.	CSC	Closg.
Y_1	0	0	51,73,630	51,73,630
Y_2	51,73,630	5,17,363	56,88,721	1,13,79,714

Y3	1,13,79,714	1137971	6256836	1,87,74,521
Y4	1,87,74,521	1877452	6885550	2,75,37,523
Y5	2,75,37,523	27,61,925 (B/F)	75,74,862	3,78,74,310

1st

CSC a/c Dr. 5173630
To DBO Payable 5173630

2nd

CSC a/c Dr. 5688721
To DBO Pay. 5688721

F.Cost a/c Dr. 517363
To DBO Payable 517363

5th

Payment to SO emp.

DBO Payable 3,78,74,310

To Bank 37874310