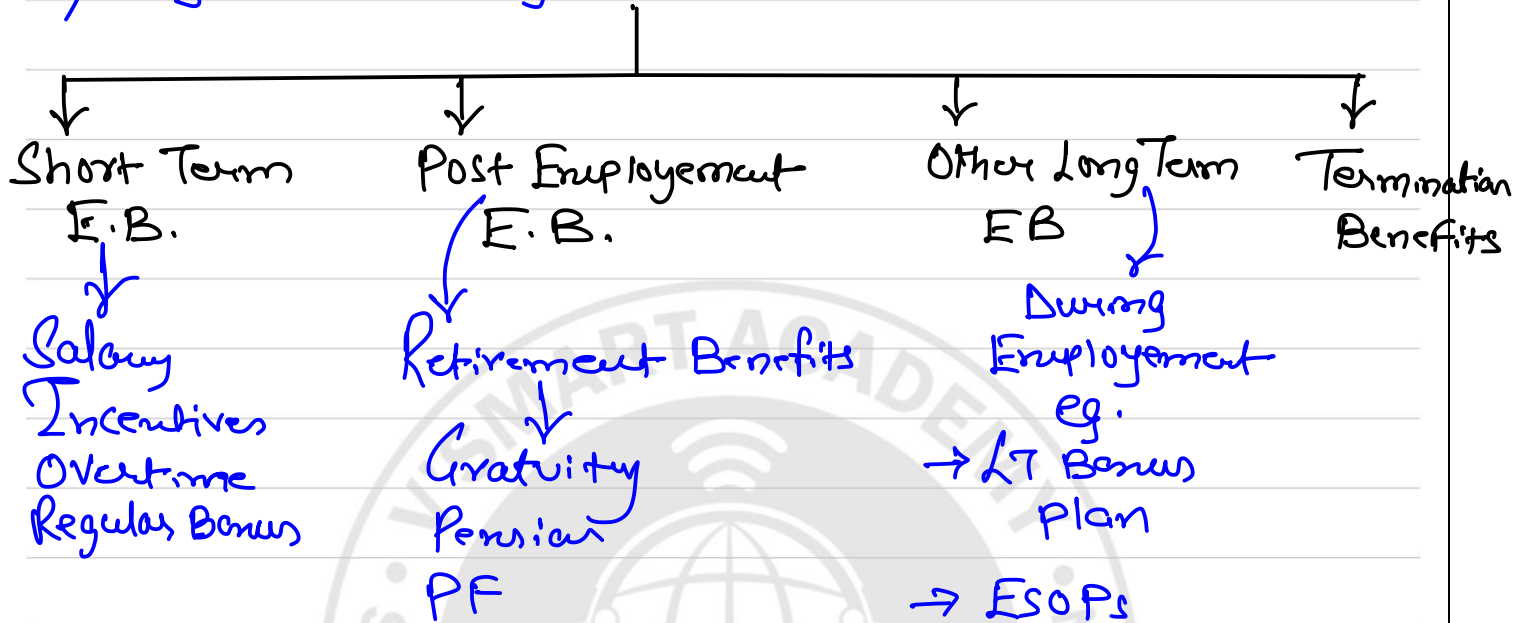
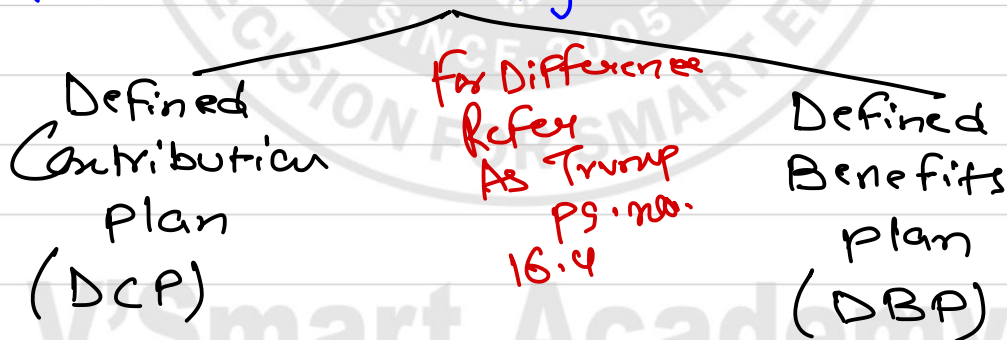


AS 15 - Employee Benefits

1) Types of Employee Benefits



2) Accounting for Post Employment Benefits & Other LT Benefits is same. These Benefits are divided into Two Categories :-



3) DCP :- Here the annual Contribution by Employer is fixed. Hence NO Actuarial Services are Required.

Amount of Contributions paid by Employer 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) 12,000
To Bank 88,000

PF Exp. a/c Dr. 12,000
To PF (Employer) 12,000

This is
Accounting
of DCP

PF (Employee) Dr. 12,000
PF (Employer) Dr. 12,000
To Bank a/c 24,000

4) Accounting For DBP :-

- Defined means Fixed
- Benefit means Final Amt. Payable to Employee (Employee off Job me Jo Jayega)
- To pay Final Amt, Every year's Contribution by Employer may not be fixed.
(Employer off Job at Kitna Every Year जितना)
- 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

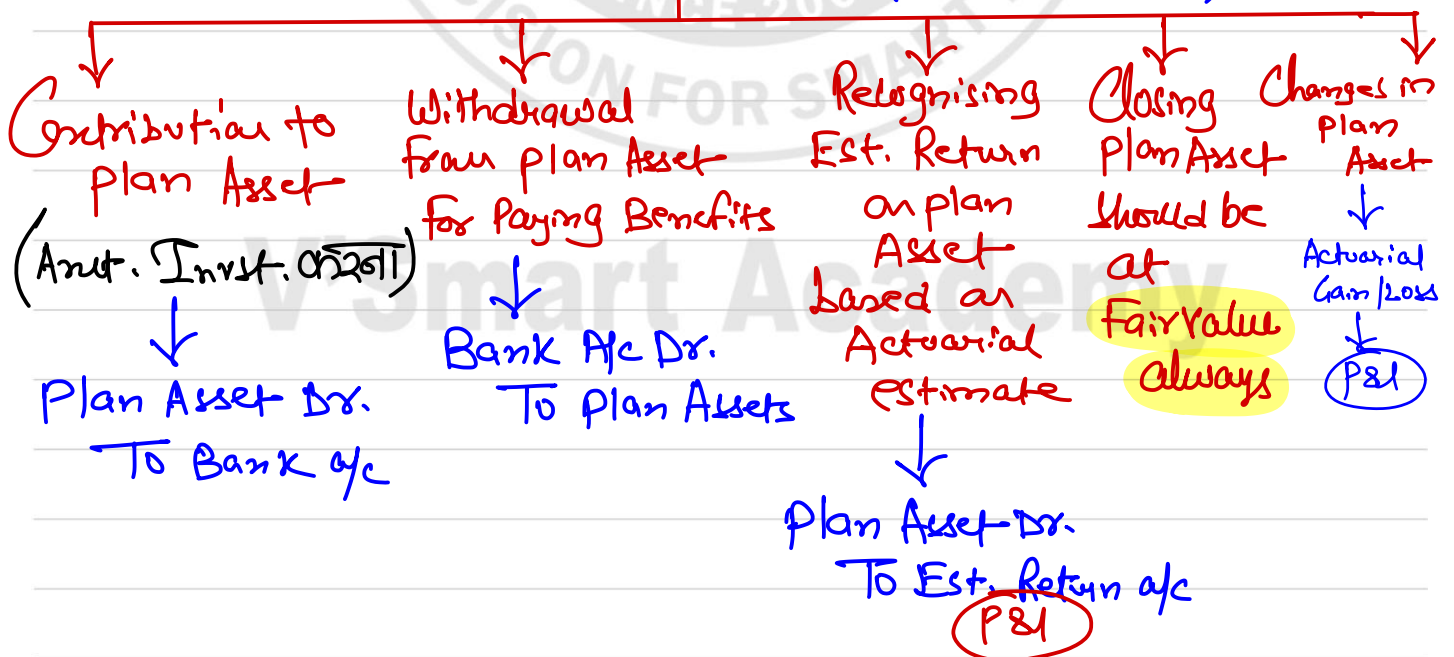
→ Under DBP, Accounting of These two items are required :-

1) DBO Payable a/c
 ↳ LT provision

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

5) Plan Asset Accounting

Plan Assets (Investment)



$$\text{Actual Return} = \text{Est. Return} +/- \text{Actuarial Gains/Losses.}$$

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		Amount
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 $4,50,000 \times 12\%$	Plan Asset Dr. To Est. Return	54,000 (P&L)
31/3 Book value		5,04,000
(+) Actuarial Gain		16,000 (P&L)
31/3 Fair value		5,20,000

* Actual Return = $54,000 + 16,000 = 70,000$

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. Gam 16000 (B/F)	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

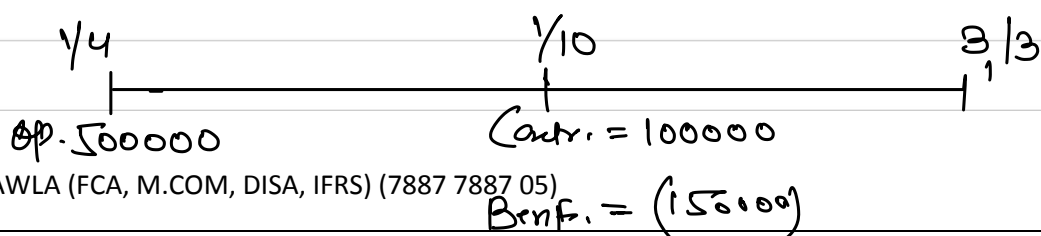
Solution

Plan Asset A/c

1/4 To Bal. b/d 500000	31/3 By Bank 1,50,000 (Withdrawal)
31/3 To Est. Ret 60000 $500000 \times 12\%$	
31/3 To Bank 1000000 (Contribution)	
31/3 To Act. Gam 10000	31/3 By Bal. c/d 5,20,000 (Fair Value)

Example 9:

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



Calculation of Estimated Return :-

a) Six Monthly Compounding Rate :-

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

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

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

$50000 \times 5.83\% = (2915)$ (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 <u>12915</u>	31/3 By Bal. c/d <u>520000</u>

Q.ASIS.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 :-

$$1/4 \text{ Opng Bal.} \Rightarrow 500000 \times 10.50 \% = 52500$$

$$30/9 \text{ Contribution} \Rightarrow 142000 \times 10.50 \% \times \frac{6}{12} = 7455$$

$$30/11 \text{ Withdrawal} \Rightarrow (63000) \times 10.50 \% \times \frac{4}{12} = (2205)$$

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 6,36,750

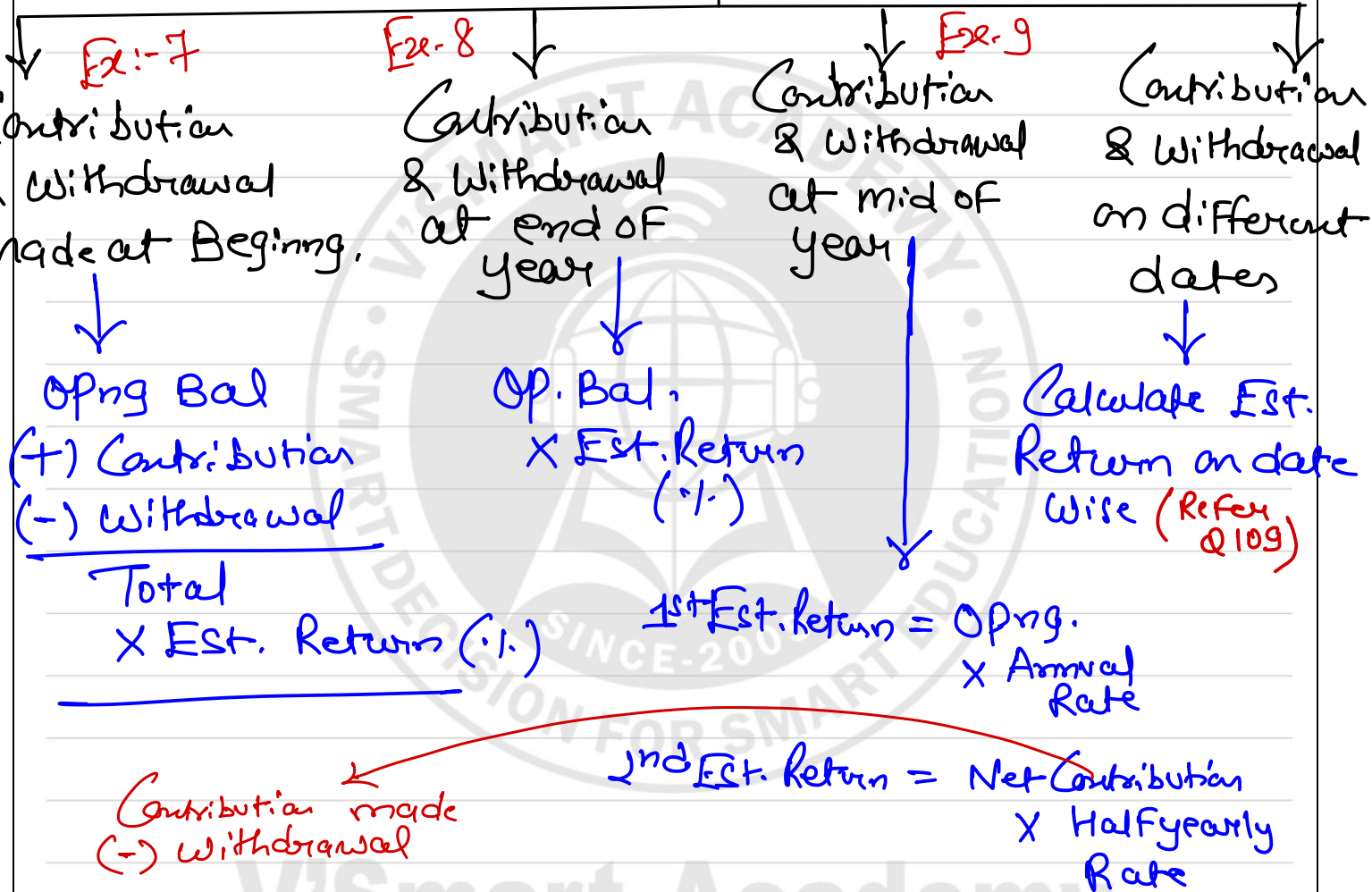
(+) Act. Gain (B/F) 1,13,250

31/3 Fair value 7,50,000

$$\text{Actual Return} = 57750 + 113250 = 1,71,000$$

6) How to Calculate Expected Return on Plan Asset

It depends on date of Contribution & Withdrawal



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

7) DBO Payable (Defined Benefit Obligation)

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

$$\text{Last-drawn salary} \times \text{Benefit (\%)} \times \text{No. of years OF Service}$$

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 Employer's Service

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

* Discounting Rate $\Rightarrow$ Based on Interest Rate of Govt. Bonds
 $\rightarrow$ Market yield.

Step 4:- Calculate Interest Cost (Finance Cost) OF Every year :-

Year	(a) Opng. DBO	(b) Interest	(c) CSC	d = a + b + c Clasg 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	$(6,00,000 \times 1.07) \times 1.07 \times 1.07 \times 1.07$ = 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

	1 st	2 nd	3 rd	4 th	5 th
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

1 st Year	Current Service cost a/c Dr.	21,48,657
	To Defined Benefit Obligation Payable (DBO) A/c	21,48,657
2 nd 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)

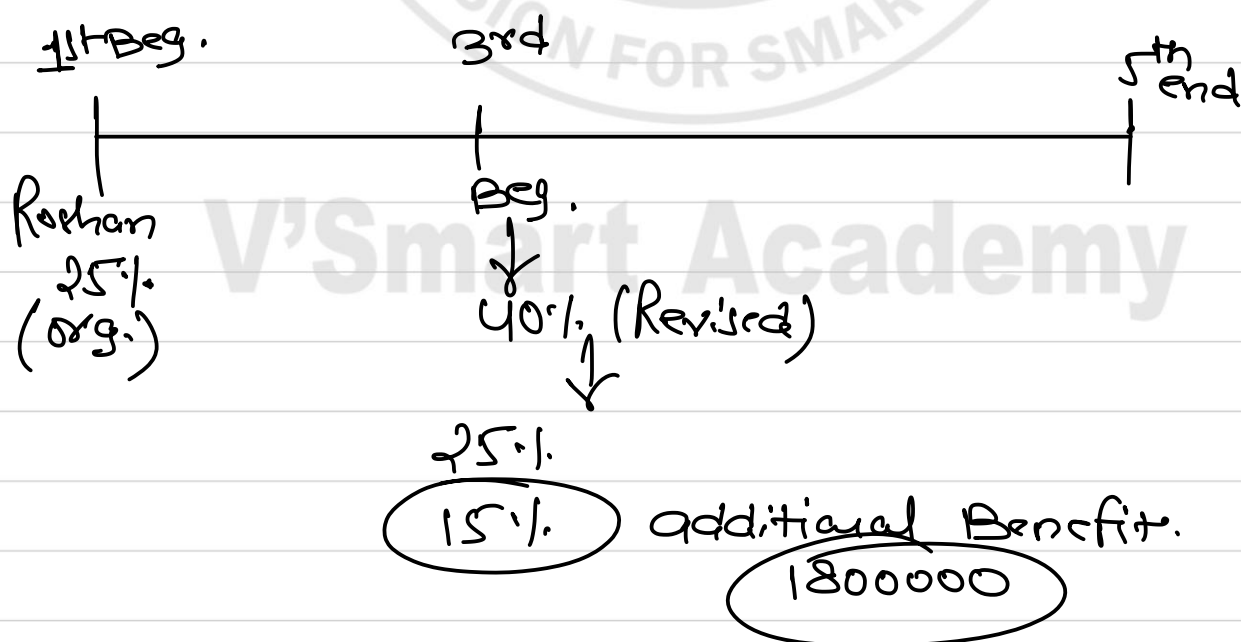
Eg. Earlier original Benefit announced is 10%. But after 2 years it is increased to 15%.

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)



$$\begin{aligned}
 1 & 360 \times 0.735 = 264600 \\
 2 & 360 \times 0.794 = 285840 \\
 3 & 360 \times 0.857 = 308520 \\
 4 & 360 \times 0.926 = 333360 \\
 5 & 360 \times 1 = 360000
 \end{aligned}$$

Step 4 IC

Year	OP	Int	CSC	Cl
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 PSC Dr. 571608 (P&L)
 Beg. 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

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

B/S Extract

NCL	
LTP	532080
DBO 3200000	
(-) P. Ass. (1000000)	
(-) 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) Post 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 $\Rightarrow$ P&L Dr. 100000
To USC 100000

Un-amortised Portion of USC (ie 200000) shall have Debit Balance & shown in Bfs as Under :-

Bfs (Extract)

Non Current Liab. :-
a) Long Term Provision

XXX

Gr. Bal. →	DBO Payable	—	xxx
Dr. Bal. ←	(-) Plan Asset	—	(xxx)
Dr. Bal. ←	(-) Unamortised USC	—	(xx)

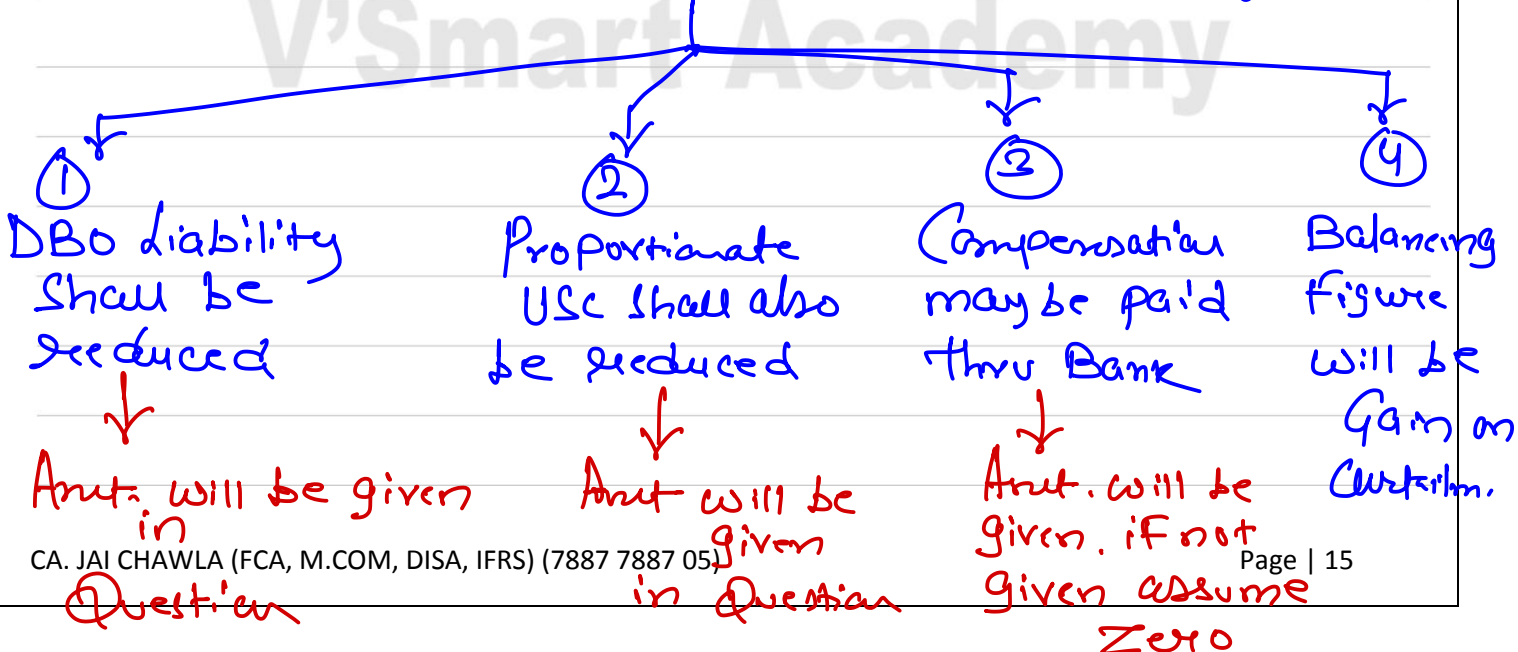
Note:- How to identify Psc & USC in Question

Additional Benefits
Vested
↓
PSC

Additional Benefits not
yet Vested
↓ (Unvested)
USC

Curtailment OF DBO

Cancellation of Benefit for Some Employees



DBO Payable A/c Dr.

To USC a/c (if any)

To Bank a/c (if any)

To Gain a/c (B/f)

ACCOUNTING STANDARD - 19

Calculation of DBO Payable and Plan Asset

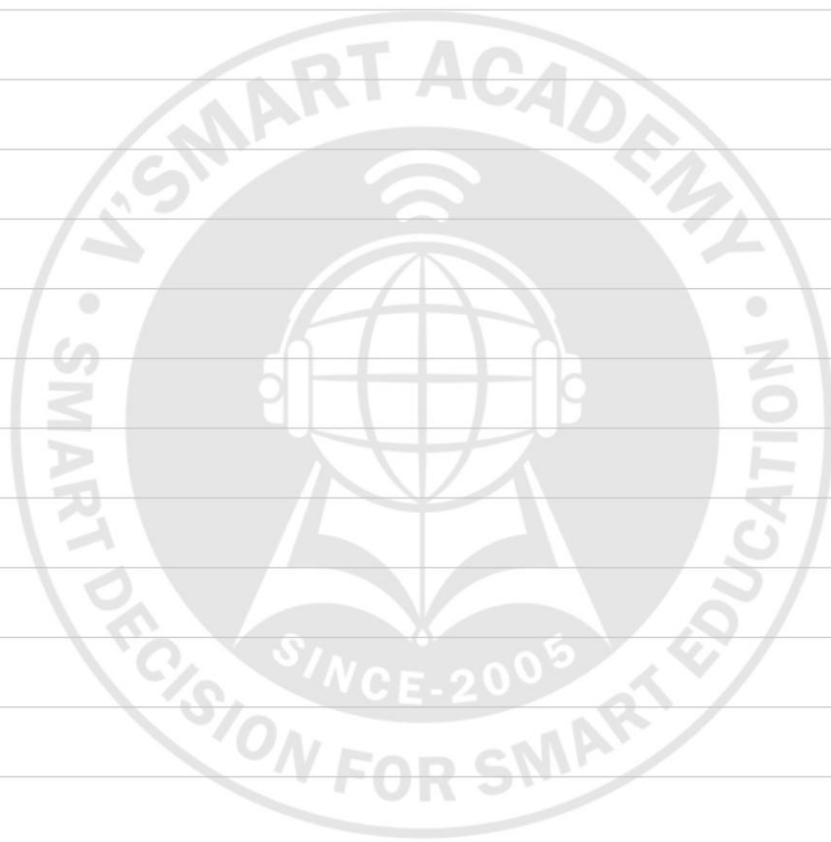
DBO Payable		Plan Asset	
Opening Balance of DBO	XXX	Opening Balance of Plan Asset	XXX
(+) Current Service Cost (CSC)	XXX	(+) Expected Return	XXX
(+) Interest Cost	XXX	(+) Contribution to Plan Asset	XXX
(+) Past Service Cost	XXX	(-) Payment of Benefits	XXX
(-) Curtailment of Benefits	XXX	(+/-) Actuarial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

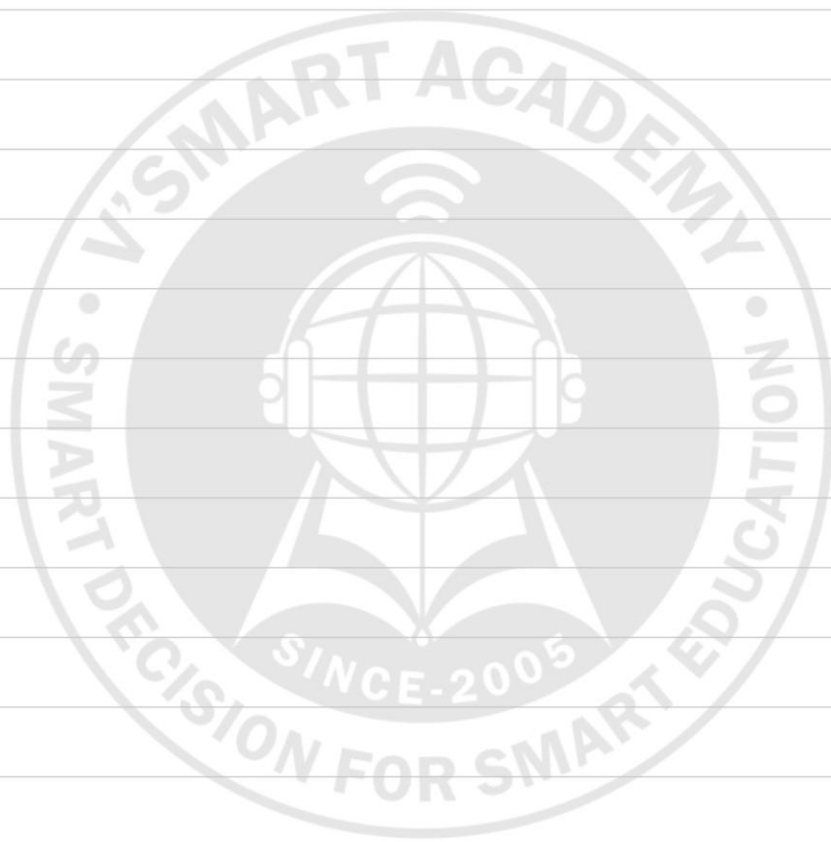
BALANCE SHEET		STATEMENT OF PROFIT AND LOSS	
Closing Balance of DBO	XXX	<u>Items of P&L:</u>	
(-) Closing Bal. of Plan Asset	XXX	<u>Employee Benefit Expenses</u>	
(-) Unamortised PSC	XXX	- Current Service Cost under Employee Benefit Exp. - Past Service Cost - Gain on Curtailment - Actuarial Gain/Loss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

Other Important Points:

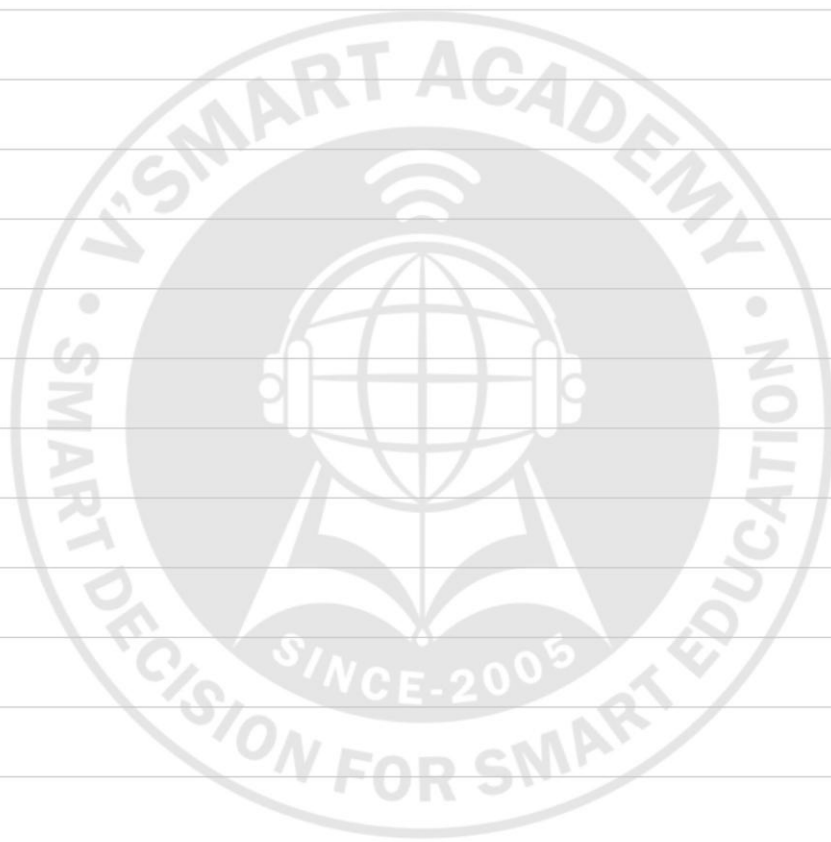
1. The discount rate shall be determined by reference to market yields at the end of reporting period on Government Bonds.
2. If nothing is specified in question always assume that contribution is made, and benefits are paid at end of the year.



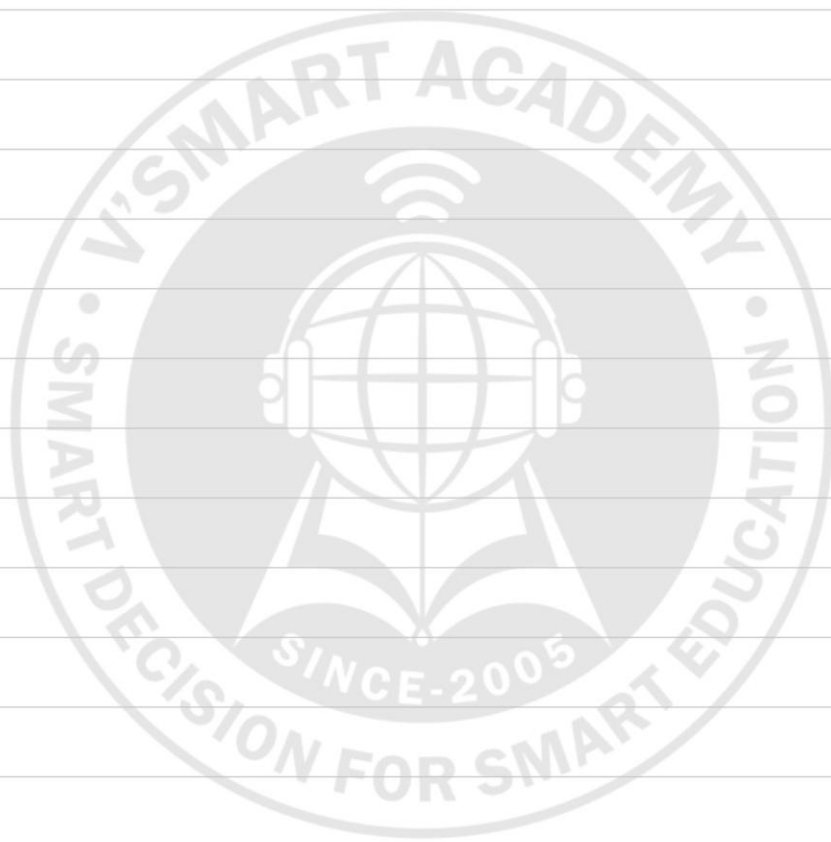
V'Smart Academy



V'Smart Academy



V'Smart Academy



V'Smart Academy

Class Ex 1 on DBO

Bonus $\Rightarrow$ 10% OF Last drawn salary after 5 year
for each year of service

Current salary = 12,00,000 Pa. 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)

$$\begin{aligned}\text{Last drawn salary} &\Rightarrow 1200000 \times 1.06 \times 1.06 \times 1.06 \\ &\quad \times 1.06 \\ &\Rightarrow 15,14,972\end{aligned}$$

$$\begin{aligned}\text{Defined Benefit} &\Rightarrow 1514972 \times 50 \times 10\% \times 5 \\ &\Rightarrow 3,78,74,310 \text{ Estimated}\end{aligned}$$

Recognise
Expense
Every Year based
on services received.

Payable after
5 years

Step 2:- Calculate Allocated Benefits of each year

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

Step 3:- Calculate Current Service Cost (CSC) OF EACH Year

Year	Allocated Benefits	PvF	<u>CSC</u>
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

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

$$0.826 \text{ Today}$$

$$0.751 \text{ Today}$$

$$0.683 \text{ Today}$$

$$0.621 \text{ Today}$$

Step 4:- Calculation of Interest Cost

Date	Opng.	Inter.	CSC	Clos.
Y1	0	0	51,73,630	51,73,630
Y2	51,73,630	51,73,63	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 75,74,862 3,78,74,310
(BIF)

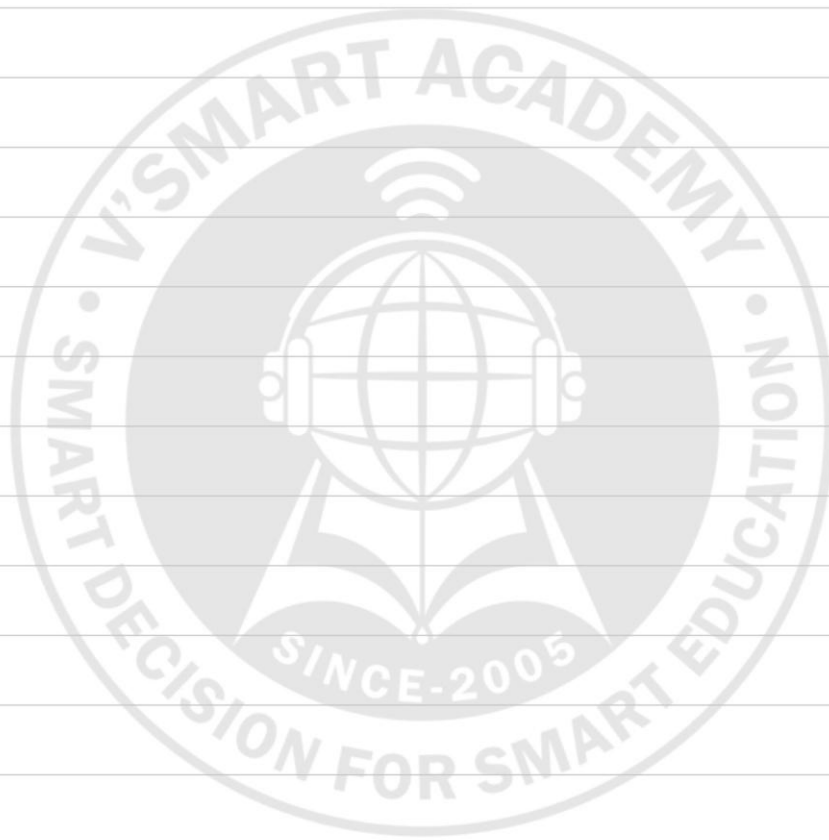
1st
CSC a/c Dr. 5173630
To DBO Payable 5173630

2nd
CSC a/c Dr. 5688721
To DBO Pay, 5688721

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

5th
Payment
to To
emp.

DBO Payable 3,78,74,310
To Bank 3,78,74,310



V'Smart Academy