

## ACCOUNTING STANDARD – 15 EMPLOYEE BENEFITS

“Make each day your Masterpiece”

### 1. EMPLOYEE BENEFITS

#### 1) Meaning:

- Any consideration payable by employer to its employees against **services rendered** by them for the employer.
- Such consideration is payable due to “**contractual agreement**” between employer and employee or sometimes due to informal practices as a result of “**constructive obligation**”.
- AS 15 covers all types of employee benefits **excluding share-based payments** to employees.

#### Constructive Obligation:

An Obligation to pay that arises out of entity's actions rather than a contract. It may typically occur from past conduct (*i.e. Past Practices/Commitments*).

#### 2) Types of Employee Benefits:

**SHORT-TERM EMPLOYEE BENEFITS**, which are expected to be settled within **Twelve Months after the end of reporting period**, such as wages, salaries etc.

**POST-EMPLOYMENT BENEFITS**, which are payable **after the completion of employment** such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care etc.

**OTHER LONG-TERM EMPLOYEE BENEFITS**, which are payable beyond 12 months from the end of reporting period. E.g. Long Term Bonus plans

**TERMINATION BENEFITS**, which are payable to employees due to termination of their services before retirement. E.g. Retrenchment Compensation.

## 2. SHORT-TERM EMPLOYEE BENEFITS (NO ACTUARIAL ASSUMPTION & NO DISCOUNTING)

### 1) General Accounting Treatment:

Employee Benefit Expenses (Salary/Bonus) A/c Dr.  
To Employee Benefits Payable A/c (Provision)

Employee Benefits Payable (Provision) A/c Dr.  
To Bank A/c

### 2) Bonus in the form of Profit Sharing:

It is also considered as an employee benefit expense if payable on satisfaction of required conditions.

It is payable as a **defined percentage of profit** earned by the employer.

### 3) Leaves Compensation (Paid Leaves or Compensating Absence):

Employer compensates to employees for their extra services provided by them during the leave period. Compensation can be provided in the form of either Cash or Extra leaves in the next period.

Accumulating Paid Leaves		Non-Accumulating Paid Leaves
Unused leaves can be carried forward to the next year		Unused leaves can-not be carried forward to the next year
<b>Vesting Leaves</b> (Payable in cash)	<b>Non-vesting leaves</b> (payable in the form of excess leaves in next year)	No Accounting
Here employee is eligible for cash payment against unused leaves. Hence 100% cash expense for unused leaves are recognised.  <b>Expenses =</b> Total Unused Leaves X Avg. Salary Per Day	Here employee is eligible for extra leaves in the form of carried forward of unused leaves.  Here it is not necessary that employee may utilize 100% excess leaves allowed, hence employee expense is recognised based on estimated leaves to be utilized.  <b>Expenses =</b>	

	No. of Employees expected to utilize the unused leaves X No. of unused leaves expected to be utilized by each employee X Avg. Salary Per Day	
Avg. Salary Per Day = Total Annual Salary ÷ No. of Working Days		

**Example 1:**

Annual Salary - 12,00,000; Total Working Days - 300; Leaves allowed in a year - 12 days; Leaves actually taken by employee - 9 days. Unused leaves will be settled in form of cash.

**Solution**

1. Avg. Salary Per Day →  $12,00,000 \div 300 = 4,000/-$
2. Cash Payable for Unused leaves →  $4,000 \times 3 = 12,000/-$
3. Total Employee Benefit Expense to be booked → 12,12,000/-

Salary A/c Dr.	12,12,000	
To Salary Payable A/c		12,12,000

Salary Payable A/c Dr.	12,12,000	
To Bank A/c		12,12,000

**Example 2:**

Annual Salary - 12,00,000; Total Working Days - 300; Leaves allowed in a year - 12 days; Leaves actually taken by employee - 9 days. Unused leaves will be settled in next year in the form of extra leaves. It is expected that 2 out of 3 unused leaves will be utilized. Suppose, employee utilized 2 days next year out of 3 days allowed.

**Solution**

Current Year	Next Year
No. of Days worked = 291 days Avg. Salary Per Day → $12,00,000 \div 300 = 4,000$	No. of Days worked = 286 days But employee will get full salary of 12,00,000
Expected Value of Unused leaves to be utilized: $4,000 \times 2 = 8,000$	Salary Payable A/c Dr.                      8,000 Salary A/c Dr.                                      11,92,000 To Bank A/c                                      12,00,000
Total Employee Benefit Expense to be booked: 12,08,000	
Salary A/c Dr.                                      12,08,000 To Salary Payable A/c                      12,08,000	

Salary Payable A/c Dr.            12,00,000	
To Bank A/c                            12,00,000	
Worked More days - Recognised Salary for more days	Worked lesser days - Recognised Salary for lesser days

**Example 3:**

An enterprise has 100 employees, who are each entitled to five working days of leave for each year. Unused leave may be carried forward for one calendar year. The leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X4, the average unused entitlement is two days per employee. The enterprise expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of leave in 20X5 and that the remaining eight employees will take an average of six and a half days each.

How much is the expected liability due to leaves?

**Ans.:**

The enterprise expects that it will pay an additional 12 days of pay as a result of the unused entitlement that has accumulated at 31 December 20X4 (one and a half days each, for eight employees). Therefore, the enterprise recognises a liability, as at 31 December 20X4, equal to 12 days of pay.

### 3. POST-EMPLOYMENT EMPLOYEE BENEFITS

#### 1) Types of Post employment benefits:

- a) **Defined Contribution Plans (DCP):** Fixed contribution by employer to the specific fund such as EPF.
- b) **Defined Benefit Plans (DBP):** Fixed Benefit (final amount payable) is payable by employer directly to employee in form of contributing variable amount every year to the fund.

#### DIFFERENCE BETWEEN DCP AND DBP

Basis of Difference	Defined Contribution Plans (DCP)	Defined Benefit Plans (DBP)
<b>Meaning</b>	Entity pays fixed contributions into a separate entity (a fund) and will have <b>no</b> legal or constructive obligation to pay further contributions.	Post-employment benefit plans other than defined contribution plans <b>(i.e. No Fixed Contribution)</b>
<b>Actuarial &amp; Investment Risk (Benefits will be</b>	Risk in substance on the Employee	Risk in substance on the entity.

more/less than expected)		
Examples	Provident Fund Contribution by employer	Gratuity
Actuarial Assumptions	Not Required	Required
Discounting	Not Required unless it is payable beyond 12 months.	Always Required
Accounting	Same as short term employee benefits	Apply "Projected Unit Credit" Method

## 2) Accounting For Defined Benefit Plans: (Under Post Employment Benefit and Long-Term Employment Benefits)

### Scope of Accounting:

- Calculation of Defined Benefit Obligation (DBO) A/c and related Expenses
- Calculation of Plan Assets A/c and related Incomes
- Calculation of Actuarial Gains/Losses on DBO and Plan Assets
- Presentation of DBO and Plan Asset in Balance Sheet
- Presentation of Expenses (Incomes) in Profit and Loss Statement

### **RECOGNITION OF DEFINED BENEFIT OBLIGATIONS (LIABILITY)**

<p><b>Important Steps to calculate annual Defined Benefit Obligation</b></p>	<p><b>Step 1:</b>  <u>Calculate Expected Benefits to be paid to employees</u>  Expected Final Salary x Benefit (%) x No. of Years of Service</p> <p><b>Step 2:</b>  <u>Allocate the Benefits to each year of Service (Attributed Benefits)</u>  Step 1 ÷ No. of Years of Service</p> <p><b>Step 3:</b>  <u>Calculate Current Service Cost (CSC) using discount rate.</u>  PV of Attributed Benefits (PV working in upward mode)</p> <p style="text-align: center;">Current Service Cost (CSC) A/c Dr. (P&amp;L)  To DBO Payable A/c</p> <p><b>Step 4:</b>  <u>Calculate Interest Cost on Opening Balance of DBO Payable using same discount rate.</u>  Interest Cost A/c Dr. (P&amp;L)  To DBO Payable A/c</p>
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<p><b>Actuarial Gains or Loss in DBO liability</b></p>	<p>Due to change in financial and demographic assumptions of actuary or due to change in final expected salary, no. of years of services, DBO liability shall be remeasured with new assumptions.</p> <p><b>Increase in DBO Liability = Actuarial Loss</b>  Actuarial Loss (P&amp;L) A/c Dr.  To DBO Payable A/c</p> <p><b>Decrease in DBO Liability = Actuarial Gain</b>  DBO Payable A/c Dr.  To Actuarial Gain (P&amp;L) A/c Dr.</p>
<p><b>Past Service Cost (PSC)</b></p>	<p>If there is a modification in Defined Benefits announced by employer which results in increase of benefits for employee (i.e. additional benefits) then DBO Liability shall be increased accordingly.</p> <p><b>PSC is divided into two parts:</b></p> <p>(a) Amortised Past service cost - which is to be <b>recognized immediately</b> to the extent benefits are <b>already vested</b>.</p> <p>(b) Unamortised Past Service cost (UPSC)- to be recognized on <b>straight line basis</b> over the remaining period until the benefits are vested.</p> <p>Past Service Cost (P&amp;L) A/c Dr.  Unamortised PSC A/c Dr.  To DBO Payable A/c</p>
<p><b>Curtailement and Settlement</b></p>	<p>Curtailement means cancellation of Defined Benefits of employees. Settlement means providing compensation to employees against cancellation of benefits. Curtailement shall reduce the liability as under:</p> <p>DBO Payable A/c Dr.  To Unamortise PSC A/c (proportionate reversal)  To Bank A/c Dr.  To Gain on Settlement A/c (P&amp;L)</p> <p>The above payment is out of withdrawal from plan asset.</p>
<p><b>Payment of Benefits to Employee</b></p>	<p>Whenever the employee retires, he/she will be eligible for benefits.</p> <p>DBO Payable A/c Dr.  To Bank A/c Dr.</p>

<b>RECOGNITION OF PLAN ASSETS (INVESTMENT for DBO)</b>	
<b>Meaning</b>	<b>Investment</b> made by Employer for meeting DBO liability. It is always recognised at <b>Fair Value</b> .
<b>Contribution to Plan Assets</b>	Contribution to Plan Asset means making Investment as per actuarial assumption under: <div style="text-align: center;">Plan Assets A/c Dr. To Bank A/c</div> (contribution is paid in beginning of year or mid of year or end of year)
<b>Benefits Paid out of Plan Assets</b>	When Employee is paid benefits, plan assets are realised as under: <div style="text-align: center;">Bank A/c Dr. To Plan Assets A/c</div> (Plan assets are realised in beginning of year or mid of year or end of year)
<b>Expected Return on Plan Assets</b>  Plan Asset A/c Dr. To Exp. Return (P&L)	Interest Rate (%) X Balance of Plan Asset = Expected Return (Take same discount rate of DBO if separate rate is not given)  <u>If contribution and benefit is made at end of year</u> Opening Balance of Plan Asset x Interest Rate (%)  <u>If contribution and benefit is made at beginning of year</u> (Opening Balance of Plan Asset + Contribution Made - Benefits Paid) x Interest Rate (%)  <u>If contribution and benefit is made at mid of year</u> Expected Return 1 - Opening Plan Assets x Interest (%) <u>(+) Expected Return 2 - Net Contribution x Six Monthly Interest (%)</u> (=) Total Return  Six Monthly Rate of Expected Return as under: $[\sqrt{1 + \text{annual rate}} - 1] \times 100$  <u>If nothing is specified in question always assume that contribution is made, and benefits are paid at end of the year.</u>
<b>Closing Balance of Plan Assets</b>	Always at Fair Value provided in Question
<b>Actuarial Gain/Loss on Plan Assets</b>	Any Difference in Plan Asset A/c is treated as Actuarial Gain or Loss and transferred to Profit and Loss A/c  <div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">Plan Asset A/c Dr. To Actuarial Gain (P&amp;L)</div> <div style="text-align: center;">Actuarial Loss (P&amp;L) Dr. To Plan Asset A/c</div> </div>

**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	<b>Closing Balance of Plan Asset</b>	<b>XXX</b>
(+/-) Actuarial Loss/(Gain)	XXX		
<b>Closing Balance of DBO</b>	<b>XXX</b>		

**Presentation in Financial Statements**

BALANCE SHEET		STATEMENT OF PROFIT AND LOSS	
Closing Balance of DBO	XXX	<b>Items of P&amp;L:</b>	
(-) Closing Bal. of Plan Asset	XXX	<b>Employee Benefit Expenses</b>	
(-) Unamortised PSC	XXX	<ul style="list-style-type: none"> <li>• Current Service Cost under Employee Benefit Exp.</li> <li>• Past Service Cost</li> <li>• Gain on Curtailment</li> <li>• Actuarial Gain/Loss on DBO</li> <li>• Actuarial Gain/Loss on Plan Assets</li> <li>• Amortisation of UPSC (SLM Basis)</li> </ul>	
<b>Net Defined Liability/(Asset)</b>	<b>XXX</b>	<b>Finance Cost</b>	
		<ul style="list-style-type: none"> <li>• Net Interest Cost under Employee Benefit Exp.</li> </ul>	
		(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. Current/Non-Current Distinction:**

This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

**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 Inflation 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	$1,57,29,552 \div 5$
	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 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
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 <sup>st</sup> Year	Current Service cost a/c Dr.	21,48,657
	To Defined Benefit Obligation Payable (DBO) A/c	21,48,657
2 <sup>nd</sup> 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

**Example 5: (on Define Benefit Obligation)**

A lump sum gratuity, equal to 1% of final salary for each year of service, is payable on termination of service. The salary in year 1 is Rs. 10,000 and is assumed to increase at 7% (compound) each year resulting in Rs. 13,100 at the end of year 5. The discount rate used is 10% per annum. Shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions.

**SOLUTION:**

(Amount in Rs.)

**Computation of benefits attributed to the current and prior years:**

Year	1	2	3	4	5
<b>Benefit attributed to:</b>					
- Prior year	0	131	262	393	524
- Current year (1% of final salary)	131	131	131	131	131
- Current and prior years	131	262	393	524	655

**Computation of obligation for an employee:**

Year	1	2	3	4	5
Opening Obligation	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current service cost (see note 2)	89	98	108	119	131
<b>Closing Obligation (see note 1)</b>	<b>89</b>	<b>196</b>	<b>324</b>	<b>476</b>	<b>655</b>

**Note 1****Closing obligation**

Year	1	2	3	4	5
Gratuity attributable	131	262	393	524	655
Payable after (years)	4	3	2	1	0
Discounting factor	.683	.751	.826	.909	1
<b>PV</b>	<b>89</b>	<b>196</b>	<b>324</b>	<b>476</b>	<b>655</b>

**Note 2****Current Service Cost**

Year	1	2	3	4	5
Gratuity of current year	131	131	131	131	131
Payable after (years)	4	3	2	1	0
Discounting factor	.683	.751	.826	.909	1
<b>PV</b>	<b>89</b>	<b>98</b>	<b>108</b>	<b>119</b>	<b>131</b>

**Example 6: (Plan Assets)**

On 1.4.20X1, the fair value of plan assets is Rs.10,000. On 30.9.20X1 it paid benefits of Rs. 1,500 and received contributions of Rs. 4,500. On 31.03.20X2, fair value of plan assets is Rs.15,000 and PV of obligation was Rs. 14,972. Actuarial losses on obligation was Rs. 60 on 31.03.20X2.

Find the net actuarial gain/losses on 31.03.20X2 based on the following estimates:

Interest and dividend income	9.00%
Realised and unrealized gain on plan assets	1.50%
Administration costs	(1.00%)

**Solution**

- Annual Expected Return = 9.50%

- Six Monthly Rate = Squar Root of  $[(1 + 0.095) - 1] \times 100 = 4.64\%$

**Plan Assets A/c**

01/04	To Balance b/f	10,000	30/09	By Bank	1,500
30/09	To Bank a/c	4,500			
31/03	To Expected Return				
	10,000 × 9.5%	950			
	3,000 × 4.64%	139			
31/03	To Actuarial Gain	911	31/03	By Balance c/d	15,000

**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 -**

**Plan Assets A/c**

$\frac{1}{4}$	To Balance b/d	5,00,000	$\frac{1}{4}$ By Bank (Benefits paid)	1,50,000
$\frac{1}{4}$	To Bank A/c	1,00,000		
31/3	To Expected Income (Income @ 12% on 4,50,000)	54,000		
31/3	To Actuarial Gain (P&L)	16,000	31/3 By Balance c/d	5,20,000

Actual Return for the year	Expected Return + Actuarial Gain /loss
	54,000 + 16,000
	70,000

**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				
$\frac{1}{4}$	To Balance	5,00,000	31/3 By Bank (Benefits)	1,50,000
31/3	To Expected Return (12% on Opening)	60,000		
31/3	To Bank A/c	1,00,000		
31/3	To Actuarial Gain (b/f)	10,000	31/3 By Balance	5,20,000

Actual Return	60,000 + 10,000
(Expected Return + Actuarial Gain)	70,000/-

**Example 9:**

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

Expected Return	12% p.a. Annual Rate
Six Monthly Compound Rate	$[(1 + \text{Annual rate})^n - 1] \times 100$
	$[(1 + 0.12)^n - 1] \times 100$
	5.83% Six monthly Compounded

Plan Asset A/c			
$\frac{1}{4}$ To Balance	5,00,000	31/3 By Bank (Benefits)	1,50,000
1/10 To Bank A/c	1,00,000		
31/03 To Expected Return $5,00,000 \times 12\% = 60,000$ $(50,000) \times 5.83\% = (2915)$	57,085		
31/3 To Actuarial Gain (b/f)	12,915	31/3 By Balance	5,20,000

Actual Return	57,085 + 12,915
(Expected Return + Actuarial Gain)	70,000/-

**Example 10:**

An enterprise operates a pension plan that provides a pension of 2% on final salary for each year of service. The benefit will be vested after 5 years of service. On 1.1.2005, the enterprise improves the pension to 2.5% of the final salary for each year of service starting from 1.1.2001 at the date of improvement the Present Value of additional benefits for service from 1.1.2001 to as follows:

- Employees with more than 5 years of service at 1.1.2005 Rs. 2,00,000
- Employees with less than 5 years of service Rs. 1,20,000  
(Average period until vesting = 3 years)

Suggest the accounting treatment.

**Solution**

- 1) Amortised PSC means additional Benefits payable to employees with more than 5 years of Service, hence 2,00,000 it is to be immediately Recognised in P&L.
- 2) Unmortised PSC mean additional Benefits payable to employees with Less than 5 years i.e. Unvested Benefits of Rs 1,20,000 is to recognised in next 3 years.

**Example 11:**

An enterprise discontinues a business segment and the employees of this segment will earn no further benefits. This is curtailment without a settlement. Immediately before the curtailment the details were.

	Before Curtailment	After Curtailment
PV of obligation	1,000	900
FV of plan assets	820	820
Unrecognized past service cost	50	45

The curtailment reduces the obligation to Rs. 900 and URPS to Rs.45. Suggest accounting treatment.

**Solution:**

DBO Payable A/c Dr.	100	
To Un-amortised PSC A/c		5
To Gain on Curtailment A/c		95(P&L A/c)

## 4. TERMINATION BENEFITS

An entity is required to recognise a liability and expense for termination benefits in the year of announcement of Termination Plan.

Amount paid for Termination of Employment	Termination Benefit Exp A/c Dr. (P&L) To Termination Benefits Payable A/c
Amount paid to receive services in future	It's a Normal Salary benefit

### Example on Termination Benefits:

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows:

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of Rs 30,000. Employees leaving before closure of the factory will receive Rs 10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are Rs. 3,200,000 (ie  $20 \times \text{Rs}10,000 + 100 \times \text{Rs} 30,000$ ). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

### Termination benefits

The benefit provided in exchange for termination of employment is Rs. 10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory, or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e. all employees will leave employment when the factory closes). Therefore, the entity recognises a liability of Rs. 1,200,000 (i.e.  $120 \times \text{Rs}. 10,000$ ) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.

### Benefits provided in exchange for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of Rs. 200,000 (i.e.  $\text{Rs}. 2,000,000 \div 10$ ) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

## 5. (MCQ's from ICAI Material)

**1. Gratuity and Pension would be examples of:**

- (a) Short-term employee benefits
- (b) Long-term employee benefits
- (c) Post-employment benefits.
- (d) None of the above.

**2. Non-accumulating compensating absence is commonly referred to as:**

- (a) Earned Leave
- (b) Sick Leave
- (c) Casual leave
- (d) All of the above

**3. The plans that are established by legislation to cover all enterprises and are operated by Governments include:**

- (a) Multi-Employer plans
- (b) State plans
- (c) Insured Benefits
- (d) Employee benefit plan

**4. Best estimates of the variable to determine the eventual cost of postemployment benefit is referred to as**

- (a) Employer's contribution
- (b) Actuarial assumptions
- (c) Cost to Company
- (d) Employee's contribution

**5. Actuarial gains / losses should be:**

- (a) Recognised through reserves
- (b) Charged over the expected life of employees
- (c) Charged immediately to Profit and Loss Statement
- (d) Do not charged to Profit and Loss Statement

<b>ANSWERS</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	c	c	b	b	c



**Student Notes:-**