

CHAPTER 18

EMPLOYEE BENEFITS (IND AS 19)

QUESTIONS FROM ICAI STUDY MATERIAL

Q1: Mr. Rajan is working for Infotech Ltd. Consider the following particulars: Annual salary of Mr. Rajan = ₹ 30,00,000

Total working days in 20X0-X1 = 300 days

Leaves allowed in 20X0-X1 as per company policy = 10 days
Leaves utilized by Mr. Rajan in 20X0-X1 = 8 days

The unutilized leaves are settled by way of payment and accordingly, carry forward of such leaves to the subsequent period is not allowed.

Compute the total employee benefit expense for Infotech Ltd. in respect of 20X0-X1.

Ans: Mr Rajan is entitled to a salary of ₹ 30,00,000 for 300 total working days.

Thus, per day salary works out to ₹ 30,00,000 ÷ 300 days = ₹ 10,000 per day

In the year 20X0-20X1, Mr. Rajan availed 8 out of 10 leaves allowed by the company. Accordingly, leaves unutilized = 10 – 8 = 2 days

In line with the company policy, Infotech Ltd. will pay Mr. Rajan for the unutilized leave.

Thus, total expense for 20X0-20X1 = ₹ 30,00,000 + (2 days unutilized leaves x ₹ 10,000 per day)
= ₹ 30,20,000.

Q2: Mr. Niranjana is working for Infotech Ltd. Consider the following particulars:

	Year 20X0-20X1	Year 20X1-20X2
Annual salary	₹ 30,00,000	₹ 30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Based on past experience, Infotech Ltd. assumes that Mr. Niranjana will avail the unutilized leaves of 3 days of 20X0-20X1 in 20X1-20X2.

Infotech Ltd. contends that it will record ₹ 30,00,000 as employee benefits expense in each of the years 20X0-20X1 and 20X1-20X2, stating that the leaves will, in any case, be utilized by 20X1-20X2.

To Bank Account	30,00,000
To Provision for Leave Encashment	30,000

Journal Entry for 20X1-20X2

Employee Benefits Expense Account	Dr.	29,70,000
Provision for Leave Encashment Account	Dr.	30,000
To Bank Account		30,00,000

Q3: Assume same information as in above question.

Based on past experience, Infotech Ltd. assumes that Mr. Niranjana will avail the unutilized leaves of 2 days of 20X0-20X1 subsequently.

However, in 20X1-20X2, Mr. Niranjana availed in actual all 3 days of brought forward leave.

Compute the expense to be recognised in 20X0-20X1 and 20X1-20X2. Also pass journal entries for both the years.

Ans: The expenditure to be recognized will be as under:

Particulars	Year 20X0-20X1	Year 20X1-20X2
Annual salary (A)	₹ 30,00,000	₹ 30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	₹ 10,000 per day	₹ 10,000 per day
No. of days worked (from above)	293 days	287 days
Expense to be recognised:		
In 20X0-20X1: ₹ 30,00,000 + [₹ 10,000 per day x 2 days (leaves unutilized expected to be utilized subsequently)]	₹ 30,20,000	
In 20X1-20X2: ₹ 30,00,000 – [₹ 10,000 per day x 3 days (excess leave utilized in 20X1- 20X2)] + ₹ 10,000 (additional expense due to change in accounting estimate)		₹ 29,80,000

The additional ₹ 10,000 booked as an expense in 20X1-20X2 represents a change in accounting estimate (i.e. as against the entity's estimation that 2 days of unutilized leave would be utilized subsequently, actually 3 days were utilized subsequently), for which a prospective effect needs to be given, in line with Para 36 of Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Journal Entry for 20X0-20X1

Employee Benefits Expense Account	Dr.	30,20,000
To Bank Account		30,00,000

To Provision for Leave Encashment		20,000
Journal Entry for 20X1-20X2		
Employee Benefits Expense Account	Dr.	29,80,000
Provision for Leave Encashment Account	Dr.	20,000
To Bank Account		30,00,000

Q4: Sunderam Pvt. Ltd. has a headcount of 100 employees in 20X0-20X1. As per the employee policy, the employees are entitled to:

- 30 casual leaves out of which 10 casual leaves may be carried forward to the next year; and
- 10 sick leaves out of which 2 sick leaves may be carried forward as paid leave.

At 31st March, 20X1, the average unused entitlement is 5 days per employee for casual leaves and 1 day per employee for sick leave. On an average, it is found that the number of such employees who would be claiming casual leaves would be 30 and 10 employees who would claim sick leaves.

Compute the liability to be recognised in respect of sick leaves and casual leaves by the entity at the end of the financial year 20X0-20X1.

Ans:

Type of leave (A)	Leave Entitlement (B)	Leaves c/f permissible (C)	Average leaves Unutilized (D)	No. of Employees (E)	Liability (F = D x E)
Casual Leave	30 days	10 days	5 days	30	150 days salary
Sick Leave	10 days	2 days	1 days	10	10 days salary

The entity will recognise liability in the books equal to 150 (30 x 5) days of paid casual leaves and 10 (10 x 1) days of paid sick leaves.

Q5: An entity has 100 employees, who are each entitled to ten working days of paid sick leave for each year. Unused sick leave may be carried forward for one financial year. Sick 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 March 20X1, the average unused entitlement is two days per employee. Based on past experience, the management expects that only 20% of the employees will use 1 day from their carried forward leave. Salary per day is ₹ 2,500.

Compute the expenses in respect of the short-term compensated absences, if they are assumed to be (a) vested short-term compensated absences, and (b) non-vested short-term compensated absences.

Ans: Vested short-term compensated absences:

Employee Benefit Expense = 100 Employees x 2 Days x ₹ 2,500 = ₹ 5,00,000

Non-vested short-term compensated absences:

Employee Benefit Expense = 100 Employees x 20% x 1 Days x ₹ 2,500 = ₹ 50,000

Q6: Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates observed during past 10 years represents 6% per annum. Acer Ltd. provides the following benefits to all its employees:

Paid vacation - 10 days per year regardless of date of hiring. Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year. As of 31st March, 20X1, unused vacation carried forward was 3 days per employee, average salary was ₹ 15,000 per day and accrued expense for unused vacation in 20X0-20X1 was ₹ 65,00,000. During 20X1-20X2, employees took 9 days of vacation in average. Salary increase in 20X1-20X2 was 10%.

How would Acer Ltd. recognize liabilities and expenses for these benefits as of 31st March, 20X2?. Pass the journal entry to show the accounting treatment.

Ans: Paid Vacation:

Step 1: Calculation of Unused Vacation in man-days as on 31st March, 20X2:

No. of Employees in service for the whole year (94%):

Particulars	Man-days
Unused vacation as on 31 st March, 20X1	3 days per employee
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	4 days per employee
Total Unused vacation as on 31st March, 20X2 - (A) (350 employees x 94% x 4 days per employee)	1,316 man-days

Newcomers (6%):

Particulars	Man-days
Entitlement to vacation for 20X1-20X2	10 days per employee
Average vacation availed in 20X1-20X2	(9) days per employee
Unused vacation as on 31st March, 20X2 (being unused leaves of 20X1-20X2 on FIFO basis)	1 day per employee

Total Unused vacation as on 31st March, 20X2 - (B) (350 employees x 6% x 1 day per employee)	21 man-days
Total unused vacation as on 31 st March, 20X2 (A + B)	1,337 man-days

Step 2: Calculation of average salary per day:

Particulars	Amount (₹)
Average salary per day as on 31 st March, 20X1	15,000
Salary increase in 20X1-20X2	10%
Average salary per day as on 31st March, 20X2	16,500

Step 3: Calculation of provision for unused paid vacation:

Particulars	Amount (₹)
Calculation of provision for unused paid vacation 20X1-20X2: (1,337 man-days x ₹ 16,500)	2,20,60,500
Provision for unused paid vacation 20X0-20X1	65,00,000

Step 4: Accounting treatment

Provision for 20X1-20X2

Employee Benefits Expenses A/c	Dr.	2,20,60,500
To Provision for Leave Encashment		2,20,60,500

Settlement of Liability of 20X0-20X1

Provision for Leave Encashment A/c	Dr.	65,00,000
To Employee Benefits Expenses A/c		65,00,000

Q7: Laxmi Mills is a profit making entity and has reported ₹ 200 crore in the financial year 20X1-20X2. According to its profit-sharing plan, it distributes and pays 5% as its portion of profit to its employees if they complete 1 year with the organisation. As under these kinds of plans, an entity is under an obligation to pay if the employees complete a specified period with the organisation. Laxmi mills has estimated that due to turnover in the organisation, the estimated pay-out would be around 4.5%. Compute the liability and expense of the company under this plan.

Ans: The company shall make a provision for liability and recognise the same amount as an expense of the amount of ₹ 9 crores in 20X1-20X2 (4.5% of ₹ 200 crores).

Q8: Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates as observed during past 10 years represents 6% per annum. Acer provides the following benefits to all its employees:

Annual bonus - during past 10 years.

Acer paid bonus to all employees who were in service during the entire financial year. Bonus was paid in June following the financial year-end. Amount of bonus for 20X1-20X2 paid in June 20X2 represented ₹ 1,25,000 per employee. Acer Ltd. used to increase amount of bonus based on official inflation rate which is 8.5% for 20X2-20X3, although there was no legal obligation to increase the bonus by such inflation rate.

How would Acer Ltd. recognize liabilities and expenses for these employee benefits as on 31st March, 20X3? Pass the journal entry to show the accounting treatment.

Ans:

Particulars	Amount (₹)
Bonus paid for 20X1-20X2	1,25,000 per employee
Bonus for 20X2-20X3 - increased by inflation of 8.5%: [1,25,000 x (100% + 8.5%)]	1,35,625 per employee
No. of employees in staff during the whole year [350 x (100-6%)]	329 employees
Provision for Bonus for 20X2-20X3	4,46,20,625

Accounting Treatment:

Provision for Bonus for 20X2-20X3

Employee Benefits Expenses A/c	Dr.	4,46,20,625
To Provision for Bonus 20X2-20X3		4,46,20,625

Note:

It is given that the company is under no legal obligation to increase the bonus by the official inflation rate. However, the company has been increasing the bonus by the inflation rate over the past years. This has given rise to a constructive obligation for Acer Ltd. Informal practices, such as these, give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. Accordingly, provision is made for the amount considering the inflation rate.

Q9: A company pays each employee a lump-sum one-time benefit upon retirement. This benefit is computed based on the employee's years in service in the company and the final salary prior to retirement. To cover its liabilities from this remuneration, the company contributes 3% of annual gross salaries to the fund. Would this obligation represent a defined contribution plan or a defined benefit plan and why?

Ans: Defined benefit plan.

Reason: Although the Company pays contributions to the fund to cover its liabilities, amount of remuneration is determined in advance and Company will have to carry the risk in case the fund's assets are not sufficient to cover remuneration in full.

Q10: In accordance with applicable legislation, company contributes 12% and employees 12% of annual gross salaries to the provident and pension fund. Upon retirement, the employees will get the accumulated balance that is calculated based on employee's years of service and his average salary for past 15 years before retirement. The pension will be paid out of the state fund assets and the company has no further obligation except to make contributions. Would this obligation represent a defined contribution plan or a defined benefit plan?

Ans: **Defined contribution plan.**

Reason: Although employee's pension is determined in advance by the formula (and thus employees neither carry actuarial nor investment risks), Company's liability is limited to contributions to the fund. In this case, as pension will be paid out of the state fund, it is a state fund which carries all the risks.

Q11: Paras Pvt. Ltd. does not have sufficient information to about a defined benefit plan and thus accounts for the plan as if it were defined contribution plan. In this kind of plan, there is a contractual agreement between Paras Pvt. Ltd. and its participants to share the deficit amongst all. This kind of funding valuation shows a deficit of ₹ 500 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next 10 years. The entity's total contributions under the contract are ₹ 30 million.

Ans: As per Ind AS 19, Paras Pvt. Ltd. should recognise a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

Q12: Acer Ltd. provides lump-sum remuneration upon retirement to its employees. Remuneration is paid out of the fund to which Acer Ltd. contributes 12% of annual gross salaries. Contributions are made twice a year ie in November of the related financial year and in June after the financial year-end. Total annual gross salaries for 20X0-X1 amounted to ₹ 50 crores. Contribution made by Acer Ltd. in November 20X0 was ₹ 2.8 crores. Remuneration depends on the number of employee's service and amount of cash in the fund at retirement date (Acer Ltd. has no further obligations except for contributions).

How should this transaction appear in the financial statements of Acer Ltd. as of 31 March 20X1?

Ans: Calculation of accrual for contributions in 20X0-20X1:

Annual gross salaries in 20X0-20X1:		50.00 crores
Amount of total contributions for 20X0-20X1 (12%):		6.00 crores
Contributions already made in November 20X0:		2.80 crores
Accrual (₹ 6 crores - ₹ 2.8 crores)		3.20 crores

Accounting Treatment:

Employee Benefits Expenses Account	Dr.	6.00 crores
To Bank Account		2.80 crores
To Contribution Payable		3.20 crores

The contribution of ₹ 6 crores will be debited to the statement profit and loss. The contribution payable of ₹ 3.20 crores will appear as a liability as at 31st March, 20X1.

Q13: Dinkar Ltd., a large IT company, accounts for gratuity on payment basis, and supports such accounting policy by making the following disclosure in the Financial Statements:

“Due to high labour turnover, a large degree of uncertainty is involved in estimating the liability of gratuity. Accordingly, the management opines that as the estimates of the uncertainty would confuse the readers by complicating the financial statements, such liability would be recorded on payment basis.”

The management opines that by making the above disclosures, the company is complying with the requirements of all the Ind AS, as a disclosure to the effect of the above is given. The management is also willing to specifically highlight the above aspect by making it conspicuous in the financial statements.

Is the contention of management correct as per the provisions of Ind AS?

Ans: Gratuity represents a payment being made to an employee upon retirement / resignation from the organization. The amount is determined in accordance with the provisions of the Gratuity Act, 1972, which applies to Dinkar Ltd. Since the amount is determined pursuant to a formula laid down under the statute, the gratuity payable represents a Defined Benefit Plan that is to be paid to the employees, with the actuarial risk and investment risk both belonging to the employer. Thus, Dinkar Ltd. must comply with Ind AS 19 and provide for the gratuity on an annual basis.

In estimating the liability for gratuity, there would be several assumptions involved such as mortality rate, staff attrition rate, salary at the time of retirement / resignation, discount rate etc., all of which have to be considered by Dinkar Ltd. The complexity involved in this exercise does not provide Dinkar Ltd. with an excuse to avoid accrual accounting.

Dinkar Ltd. has stated that it would be willing to make a disclosure to the effect of the departure from Ind AS 8 requirements. In terms of Para 19 of Ind AS 1, departure is permitted in extremely rare circumstances wherein the management concludes that compliance with an Ind AS requirement would be so misleading that it would conflict with the objective of the Financial Statements set out in the Framework.

In the given case, compliance with Ind AS would not be a conflict, as the compliance with Ind AS 19 would ensure that the accrual assumption laid down in the Framework is complied with. Further, a disclosure cannot be a remedy for non-compliance. Therefore, the company have to state that the Ind AS have not been complied with by the company in the preparation and presentation of its Financial Statements.

Hence, the company will have to suitably modify the financial statements considering the materiality and pervasiveness of the non-compliance.

Q14: How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	3,500
Fair Value of Plan Assets	3,332

Ans:

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	3,500
Less: Fair Value of Plan Assets	(3,332)
Deficit, to be treated as Net Defined Benefit Liability under Non-current Liabilities as Provisions in the Balance Sheet	168

Q15: How will the following information be presented in the Balance Sheet of Udyog Ltd.?

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	2,750
Fair Value of Plan Assets	2,975
Asset Ceiling	175

Ans:

Particulars	₹ in lakhs
PV of Defined Benefit Obligations	2,750
Less: Fair Value of Plan Assets	(2,975)
Surplus, to be treated as Net Defined Benefit Asset,	225
Asset Ceiling as per Ind AS 19	175
Least of above is Surplus to be treated as Net Defined Benefit Asset under Balance Sheet	175

Q16: AJ Ltd is engaged in the business of trading of chemicals having a net worth of ₹ 150 crores. The company's profitability is good and hence the company has introduced various benefits for its employees to keep them motivated and to ensure that they stay with the organization. The company is an associate of RJ Ltd which is listed on Bombay Stock Exchange in India.

The company initially did not have any HR function but over the last 2 years, the management set up that function and now HR department takes care of all the benefits related to the employees and how they can be structured in a manner beneficial to both the employees and the objectives of the company.

One of the employee benefits involves a lump sum payment to employee on termination of service and that is equal to 1 per cent of final salary for each year of service. Consider the salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year.

Taking a discount rate at 10 per cent per year, you are required to show

- benefits attributed (year on year) and
- the obligation in respect of this benefit (year on year)

For and employee who is expected to leave at the end of year 5 Following assumptions may be taken to solve this:

- There are no changes in actuarial assumptions.
- No additional adjustments are needed to reflect the probability that the employee may leave the entity at an earlier or later date.

[MTP May 2024; MTP May 25]

Ans:

- Computation of benefit attributed to prior years and current year:

Amount in ₹

Year	1	2	3	4	5
Benefit attributed to:					
- Prior years	-	131	262	393	524
- Current year (Refer W.N.1)	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>
Total (i.e. current and prior years)	<u>131</u>	<u>262</u>	<u>393</u>	<u>524</u>	<u>655</u>

- Computation of the obligation for an employee who is expected to leave at the end of year 5 (taking discount rate of 10% p.a.)

Amount in ₹

Year	1	2	3	4	5
Opening obligation (A)	-	89	196	324	475
Interest at 10% (B = A X 10%)	-	9	20	32	47
Current service cost (C) (Refer WN 2)	<u>89</u>	<u>98</u>	<u>108</u>	<u>119</u>	<u>131</u>
Closing obligation D = (A+B+C)	<u>89</u>	<u>196</u>	<u>324</u>	<u>475</u>	<u>653</u>

Figures have been rounded off in the table.

Working Notes

- A lump sum benefit is payable on termination of service and equal to 1 per cent of final salary for each year of service. The salary in year 1 is ₹ 10,000 and is assumed to increase at 7 per cent (compound) each year.

The year on year salary would be as follows:

Amount in ₹

Year	1	2	3	4	5
Salary	10,000	10,700	11,449	12,250	13,108
		(10,000 x	(10,700 x	(11,449 x	(12,250 x
		107%)	107%)	107%)	107%)

Accordingly, for the purpose of above mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

2. Computation of current service cost:

Year	1	2	3	4	5
1% salary at the end of year 5	-	-	-	-	131
PV factor at the end of each year to be considered at 10% p.a. (E)	0.683	0.751	0.826	0.909	1.000
PV at the end of each year	89	98	108	119	131
	(131 x E)	(131 x E)	(131 x E)	(131 x E)	(131 x E)

Accordingly, for the purpose of above mentioned employee benefit, 1% of final salary to be considered for each year of service would be ₹ 131.

Q17: A plan pays a benefit of ₹ 150 for each year of service. The benefits vest after ten years of service. Compute the benefit to be attributed each year?

Ans: A benefit of ₹ 150 is attributed to each year.

In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service. This is because the benefits vest at a future date (i.e. after ten years of service).

Q18: A plan pays a benefit of ₹ 150 for each year of service, excluding service before the age of 25. The benefits vest immediately. Compute the benefit to be attributed before the age of 25 and after 25?

Ans:

- No benefit is attributed to the service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional).
- A benefit of ₹ 150 is attributed to each subsequent year. There is no requirement to reflect any probability of completion as the benefits vest immediately.

Q19: Amra Pvt. Ltd. has a plan for its employees where it has decided to pay a lump-sum benefit of 2,000 that will vest after ten years of service. However, that plan will provide no further benefit for subsequent service. Compute the benefit attributed for 10 years of service and for the period of service after 10 years?

Ans: In this case, as per the company's plan, a benefit of 200 (2,000 ÷ 10 years) is attributed to each of the first 10 years.

The current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service. This is because the benefits vest at a future date (i.e. after ten years of service).

No benefit is attributed to subsequent years.

Q20: Sanat Pvt. Ltd. has a plan for the employees where employees are entitled to a benefit of 5% of final salary for each year of service before the age of 55.

Compute the benefit attributed up to 55 years and after 55?

Ans: Benefit of 5% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Q21: A post-employment medical plan reimburses 40 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service. How will the benefit be attributed to the years of service?

Ans:

1. Under the Plan's Benefit Formula, the entity should attribute 4% of the present value of the expected medical costs (40% ÷ 10 years) to each of the first ten years, and 1% (10% ÷ 10 years) to each of the second ten years.
2. For employees expected to leave within 10 years, no benefit is attributed.
3. The Current Service Cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits.

Q22: A post-employment medical plan reimburses 10 percent of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50 per cent of those costs if the employee leaves after twenty or more years of service.

How will the benefit be attributed to the years of service?

Ans:

1. Service in later years will lead to a materially higher level of benefit than in earlier year. So, for employees expected to leave after 20 or more years, the entity should attribute benefit on a straight-line basis under Para 71. Service beyond 20 years will lead to no material amount of further benefits. So, the benefit attributed to each of the first 20 years will be 2.5% of the Present Value of the Expected Medical Costs (50% ÷ 20 years).
2. For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% (10% ÷ 10 years) of the Present Value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

3. For employees expected to leave within ten years, no benefit is attributed.

The Current Service Cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits

Q23: AKJ Ltd is a listed company engaged in the business of manufacturing of electronic equipment. The company has various branch offices spread out across India and has 1,000 employees.

As per the statutory requirements, gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than five years -

- (a) on his superannuation, or
- (b) on his retirement or resignation, or
- (c) on his death or disablement due to accident or disease.

The completion of continuous service of five years shall not be necessary where the termination of the employment of any employee is due to death or disablement.

The amount payable is determined by a formula linked to number of years of service and last drawn salary. The amount payable to an employee shall not exceed ₹ 10,00,000.

Compute the amount of employee benefit, if any, attributed to each year of service.

Ans: The amount of gratuity would be attributed to each year of service and calculated as follows: Number of employees not likely to fulfill the eligibility criteria will be ignored.

Other employees will be grouped according to period of service they are expected to render taking into account:

- mortality rate,
- disablement and
- resignation after 5 years.

Gratuity payable will be calculated in accordance with the formula prescribed in the governing statute based on the period of service and the salary at the time of termination of employment, assuming promotion, salary increases etc.

For those employees for whom the amount payable as per the formula does not exceed ₹ 10,00,000, over the expected period of service, the amount payable will be divided by the expected period of service and the resulting amount will be attributed to each year of the expected period of service, including the period before the stipulated period of 5 years.

In case of the remaining employees, the amount as per the formula exceeds ₹ 10,00,000 over the expected period of service of 10 years (say), and the amount of the threshold of ₹ 10,00,000 is reached at the end of 8 years (assumed) i.e. ₹ 1,25,000 (₹ 10,00,000 divided by 8) is attributed to each of the first 8 years. In this case, no benefit is attributed to subsequent two years. This is because service beyond 8 years will lead to no material amount of further benefits.

Q24: Pratap Ltd. belongs to the ship-building industry. The company reviewed an Actuarial Valuation for the first time for its pension scheme which revealed a surplus of ₹ 60 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 20 lakhs instead of ₹ 50 lakhs.

The average remaining life of the employees is estimated to be 6 years. Advise the Company in line with Ind AS 19.

Ans: **Recognition:** As per Ind AS 19, any Actuarial Gains and Losses should be recognized as a re-measurement of the Net Defined Benefit Liability / (Asset) in "Other Comprehensive Income".

Measurement and Presentation: In the given case, the amount of surplus from Pension Scheme of ₹ 60 lakhs is an Actuarial Gain and should be recognized as a "re-measurement" in "Other Comprehensive Income", and not to be adjusted from the amount of annual contribution in future years.

Disclosure: The change relating to Actuarial Valuation for the Pension Scheme requires disclosure under Ind AS 8. Disclosures required by Ind AS 19 should also be made in the financial statements.

Q25: RKA Private Ltd is an old company established in 1911. 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 1st April, 2011 and 31st March, 2012.

Particulars	₹ in lacs	
	1st April, 2011	31st Mar, 2012
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, 2012, service cost was ₹ 55 lacs. The company made a contribution of an amount of ₹ 111 lacs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%. You are required to -

- Compute the balance(s) of the company to be included its balance sheet as on 31st March, 2012 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 2012.
- Give the journal entries in respect of amount(s) to be recognized.

[MTP May 2023; Nov 2023; Jan 2026]

Ans:

(a)

Extract of the Balance Sheet of RKA Private Ltd as at 31 st March, 2012	₹ in lacs

Closing net defined liability (1,580 – 1,275) lacs	305
Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 2012	₹ in lacs
Service cost	55
Net interest (Refer W.N.1)	21
Profit or loss	76
Other comprehensive income:	
Remeasurements (Refer W.N.2)	80
Total	156

Journal entry

Particulars		₹ in lacs	₹ in lacs
Profit & Loss	Dr.	76	
Other comprehensive income	Dr.	80	
To Cash (Contribution)			111
To Net defined benefit liability (Refer WN 3)			45

Working Notes:

- a. Computation of Net interest taken to the Statement of Profit or Loss

$$\begin{aligned}
 &= \text{Discount rate} \times \text{Opening net defined benefit liability} \\
 &= 8\% \times (1,400 - 1,140) \text{ lacs} \\
 &= 8\% \times 260 \text{ lacs} \\
 &= 21 \text{ lacs (Rounded off to nearest lacs)}
 \end{aligned}$$

- b. Computation of Remeasurements

Actuarial gain or loss on defined benefit liability:

Particulars	₹ in lacs
Opening balance of liability	1,400
Current service cost	55
Interest on opening liability (1,400 x 8%)	112
Actuarial loss (Bal. fig)	13
Closing balance of liability	1,580
Particulars	₹ in lacs

Opening balance of asset	1,140
Cash contribution	111
Actual return (Bal. fig)	24
Closing balance of asset	1,275

Net interest on opening balance of plan asset = ₹ 91 lacs (i.e., 1,140 lacs x 8%) (Rounded off to nearest lacs)

Hence there is a decrease in plan assets due to remeasurement for which computation is as follows:

Actual Return – Net interest on opening plan asset = ₹ 24 lacs – ₹ 91 lacs = ₹ 67 lacs.

Net remeasurement would be computed as follows:

Actuarial loss on liability + Loss on return = ₹ 13 lacs + ₹ 67 lacs = ₹ 80 lacs.

- c. Computation of increase/ decrease in net defined benefit liability:

Particulars	₹ in lacs
Opening net liability (₹ 1,400 lacs – ₹ 1,140 lacs)	260
Closing net liability (₹ 1,580 lacs – ₹ 1,275 lacs)	305
Increase in liability	45

Q26: An entity has 100 employees, who are each entitled to five working days of paid sick leaves for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (LIFO basis).

At 31 March, 2011, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 2011-2012 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2011 (one and a half days each, for eight employees).

Would the entity require to recognize any liability in respect of leaves?

[IBS CS 22; MTP SEP 2025]

Ans: At 31 March, 2011, the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leaves in 2011-2012 and that the remaining eight employees will take an average of six and a half days each.

The entity expects that it will pay an additional twelve days of sick pay as a result of the unused entitlement that has accumulated at 31st March, 2011 (one and a half days each, for eight employees).

Therefore, the entity would recognize a liability equal to twelve days of sick pay.

Q27: A plan provides a monthly pension of 0.3% of final salary for each year of service. The pension is payable from the age of 65. What is the current service cost?

Ans: Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.3% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.3% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.

Q28: B Pvt. Ltd. has a post-employment medical plan which will reimburse 20% of an employee's post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service. Compute the benefit attributed for last 20 years, 10 and 20 years and within 10 years? [IBS CS 22]

Ans: As per Ind AS 19, the benefit will be attributed till the period the employee service will lead to no material amount of benefits. And service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a straight-line basis. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5% of the present value of the expected medical costs (50% divided by twenty).

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 2% (20 % divided by 10) of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

Q29: Cisca Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in 2010-11. As per the company policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and sick leave, 10 and 5 can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 as PL and 5 as SL.

Also the company has been incurring profits since 2009. It has decided in 2010-11 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Cisca Pvt. Ltd. is expected to be around 3.5%. The profits earned during 2010-11 is ₹ 2,000 crores.

Cisca Pvt. Ltd. has a post-employment benefit plan also available which is the nature of defined contribution plan where contribution to this fund amounts to ₹ 100 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 20 crores to its employees in 2010-11.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Cisca Pvt. Ltd? **[MTP May 2022; IBS CS2]**

- Ans:**
- (i) Cisca Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2010-11.
 - (ii) Cisca Pvt. Ltd. will recognise ₹ 70 crores (2,000 x 3.5%) as a liability and expense it books of account.
 - (iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:
 - (a) Under Ind AS 19, the amount of ₹ 80 crores may be recognised as a liability (accrued expense), after deducting any contribution already paid (100-20). However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and
 - (b) Also, ₹ 80 crores will be recognised as an expense in this case study which will be disclosed as an expense in the statement of profit or loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.

Q30: OPQ Ltd is a listed company having its corporate office at Nagpur. The company has a branch office at Chennai. The company has been operating in Indian market for the last 10 years.

The company operates a pension plan that provides a pension of 2.5% of the final salary for each year of service. The benefits become vested after seven years of service.

On 1st April, 2018, the company increased the pension to 3% of the final salary for each year of service starting from 1st April, 2011. On the date of the improvement, the present value of the additional benefits for service from 1 April, 2011 to 1st April 2018 was as follows:

- Employees with more than seven years' service on 1 January 2018 – ₹ 2,75,000
- Employees with less than 7 years of service – ₹ 2,21,000 (average 4 years to go). What would be the accounting treatment in this case?

Ans: OPQ Ltd increased the pension to 3% of the final salary for each year of service starting from 1st April, 2011 to 1st April, 2018.

The company would recognize the total amount of ₹ 4,96,000 (i.e. ₹ 2,75,000 + ₹ 2,21,000) immediately, as for the purpose of recognition it does not make any difference as to whether the benefits are already vested or not.

Q31: 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:

Plan Assets

At 1st April, 2011, the fair value of plan assets was ₹ 10,000.

Contribution to the plan assets done on 31 March, 2012 – ₹ 3,000

Amount paid on 31st March, 2012 – ₹ 300

At 31st March, 2012, the fair value of plan assets was ₹ 14,700

Actual return on plan assets – ₹ 2,000

Defined Benefit Obligation

At 1st April, 2011, present value of the defined benefit obligation was ₹ 12,000.

At 31st March, 2012, present value of the defined benefit obligation was ₹ 15,500.

Actuarial losses on the obligation for the year ended 31st March, 2012 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). Also compute net interest on the net defined benefit liability (asset). **[MTP Nov 2024]**

Ans: As per Ind AS 19, net remeasurement of ₹ 900 would be recognized in other comprehensive income.

Computation of Net remeasurement

= Remeasurement – Actuarial loss

= ₹ 1000 (Refer WN - 1) – ₹ 100 (Given in the question)

= ₹ 900.

Computation of net interest expense

Particulars	Amount in ₹
Defined benefit liability as at 1 April 2011 (A)(Given in the question)	12,000
Fair value of plan asset as at 1 April 2011 (B) (Given in the question)	(10,000)

Net defined benefit liability (A - B)	2,000
Net interest expense (as it is net liability) (Refer note given below)	200

Note:

Net interest expense would be computed on net defined benefit liability using discount rate of 10% given in the question-

= Net defined benefit liability x Discount rate

= 2,000 x 10% = ₹ 200.

Working Note: Computation of amount of remeasurement

Particulars	Amount in ₹
Actual return on plan asset for the year ended 31 March 2012 (C)	
(Given in the question)	2,000
Less: Interest income on ₹ 10,000 held for 12 months at 10% (D)	(1,000)
Remeasurement (E = C - D)	1,000

Q32: 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.

[RTP Nov 2018; Exam Sep 2025 (8 Marks)]

Ans: All figures are ₹ in '000.

On 31st March, 2018, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be 12,000 (68,000 – 56,000).

For the year ended 31st March, 2018, A Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be 6,200. The same treatment applies to the past service cost of 1,500.

For the year ended 31st March, 2018, A Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of 8,000 (60,000 – 52,000). The amount of the finance cost will be 400 (8,000 x 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of 500 (8,000 – 7,500) will be reported in the statement of profit or loss.

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

For the year ended 31st March, 2018, the remeasurement loss will be 3,400 (Refer W. N.).

Working Note:

Remeasurement of gain or loss

	₹ in '000
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	12,000

Q33: On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at ₹ 20,40,000 and the present value of the defined obligation was ₹21,25,000. On 31st March, 20X2 the plan received contributions from XYZ Ltd amounting to ₹4,25,000 and paid out benefits of ₹ 2,55,000. The current service cost for the financial year ending 31 March 20X2 is ₹ 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 March 20X2 was ₹23,80,000, and 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. Also show how much

amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet? [Exam May 22 (7 Marks)]

Ans: Reconciliation of Plan assets and Defined benefit obligation

	Plan Assets ₹	Defined benefit obligation ₹
Fair value/present value as at 1 st April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return on gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at March 31,20X2	23,80,000	27,20,000

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

Current service cost	5,10,000
Net interest on net defined liability (₹ 1,06,250 – ₹ 1,02,000)	4,250
Defined benefit re-measurements recognised in Other Comprehensive Income: ₹	
Loss on defined benefit obligation	(2,33,750)
Gain on plan assets	68,000
	(1,65,750)

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

Net defined liability (₹ 27,20,000 – ₹ 23,80,000)	3,40,000
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QUESTIONS FROM RTP/MTP/EXAMS/GFRS

Q34: 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
Employees with less than 5 years' of service at 1st April, 2015	₹ 20 million

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 both as per AS 15 and Ind AS 19. **[RTP May 2019]**

Ans: 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.

Q35: Durable Industries previously had a defined pension plan (a defined benefit plan) under which the employees who joined before April 1, 2012 were enrolled. With respect to employees who joined on or after April 1, 2012 were all enrolled in the industrial pension plan. The Company found that the industrial pension plan was more beneficial to the employees than the defined pension plan. Hence, during 2018-19 it decided to change all the employees from defined pension plan to the industrial pension plan. The entity paid ₹ 5 crore to the employees who in turn agreed to forfeit the pension entitlement from the defined pension plan. The liability recognised in the financials, for the year ended March 31, 2018, with respect to the pension liability was ₹ 7 crores.

How should this be accounted in the financials for the year ended March 31, 2019 ? **[GFRS]**

Ans: The discontinuation of old defined pension plan is a curtailment event. Durable Industries is supposed to recognised gain or loss on settlement when the legally bind agreement has been reached, that eliminates all further legal or constructive obligations for the benefits provided under the pension plan in exchange for lump sum payment.

As per para 109 of IAS 19 'Employee Benefits', the gain or loss on a settlement is the difference between:

- (a) the present value of the defined benefit obligation being settled, as determined on the date of settlement
- (b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

Accordingly, Durable Industries recognises a settlement gain of ₹ 2 crore (ie ₹ 7 crore – ₹ 5 crore) in its financial statements for the year ended 31st March, 2019.

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Q36: At 1 April, 20X0, the fair value of the Plan Assets was ₹ 10,00,000. The Plan paid benefits of ₹ 1,90,000 and received contributions of ₹ 4,90,000 on 30 September, 20X0. The company computes the Fair Value of Plan Assets to be ₹ 15,00,000 as on 31 March, 20X1 and the Present

Value of the Defined Benefit Obligation to amount to ₹ 14,79,200 on the same date. Actuarial losses on defined benefit obligation were ₹ 6,000.

Compounding happens half-yearly. The normal interest rate for 6 months period is 10% per annum, while the effective interest rate for 12 months period is based on the following data:

At 1 April, 20X0, the company made the following estimates based on market prices at that date:

Particulars	%
Interest and Dividend Income, after tax payable by the fund	9.25
Add: Realized and Unrealized Gains on Plan Assets (after tax)	2.00
Less: Administration Costs	(1.00)
Expected Rate of Return	10.25

Determine actual return and expected return on plan asset. Also compute amount to be recognized in 'Other Comprehensive Income' in this case. **[RTP May 2021]**

Ans: Computation of Expected Return on Plan Assets

Particulars	₹
Return on ₹ 10,00,000 for 20X0-20X1 at 10.25% = ₹ 10,00,000 x 10.25%	1,02,500
Add: Return on ₹ 3,00,000 for 6 months at 10% Normal Rate = [3,00,000 (Inflow ₹ 4,90,000 less Payments ₹ 1,90,000) x 10% x 6/12]	15,000
Expected Return on Plan Assets	1,17,500

Computation of Actual Return on Plan Assets

Particulars	₹
Fair Value of Plan Assets at the year-end – 31 March 20X1	15,00,000
Less: Fair Value of Plan Assets at the beginning – 1 April 20X0	(10,00,000)
Less: Contributions received during the year 20X0-20X1	(4,90,000)
Add: Benefits paid during the year 20X0-20X1	1,90,000
Actual Return on Plan Assets	2,00,000

Computation of Net Actuarial Gain

Particulars	₹
Actual Return on Plan Assets	2,00,000
Less: Expected Return on Plan Assets	(1,17,500)
Actuarial Gain on Plan Assets	82,500

Less: Actuarial Loss on Defined Benefit Obligation (given)	(6,000)
Net Actuarial Gain to be recognized in 'Other Comprehensive Income'	76,500

Q37: From the following particulars, compute the net defined benefit liability and expense to be recognized in Profit and Loss account. (₹ in lakhs)

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Particulars	Defined benefit obligation		Plan Assets	
	31 st Dec. 20X2	31 st Dec. 20X1	31 st Dec. 20X2	31 st 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
Actuarial Return on plan assets	-	-	2.12	(0.35)

[RTP May 2023]

Ans: 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 31 st December, 20X1:

$$= ₹ 41.44 \text{ lakhs } (₹ 63.25 \text{ lakhs} - ₹ 21.81 \text{ lakhs})$$

Net defined liability to be recognised for the period ending 31 st December, 20X2:

$$= ₹ 41.68 \text{ lakhs } (₹ 75.07 \text{ lakhs} - ₹ 33.39 \text{ lakhs})$$

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).

Q38. Arunachalam Ltd. operates a Defined Retirement Benefits Plan for its current and former employees. Given the large size of the company, it engaged a firm of Actuaries for advice on the Contribution Levels and overall Liabilities of the Plan to pay benefits. Following details are given:

- On 1st April, 20X1, the actuarial valuation of the present value of the defined benefit obligation was ₹ 15 crores. On the same date, the fair value of the assets of the Defined Benefit Plan was ₹ 13 crores. On 1st April, 20X1, the annual market yield based on Government Bonds was 5%.
- During the year ended 31st March, 20X2, Arunachalam made contributions of ₹ 1.75 crore into the Plan and the Plan paid out benefits of ₹ 1.05 crore to retired members. Assume that both these payments were made on 31st March, 20X2.
- The Actuarial Firm estimated that the current service cost for the year ended 31st March, 20X2 would be ₹ 1.55 crores. On 28th February, 20X2, the rules of the Plan were amended with retrospective effect which led to an increase in the present value of the defined benefit obligation by ₹ 37.5 lakhs from that date.
- During the year ended 31st March, 20X2, Arunachalam was in negotiation with employee representatives regarding planned redundancies. These negotiations were completed shortly before the year end and the redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 2 crores. Before 31st March, 20X2, Arunachalam made payments of ₹ 1.875 crores to the employees affected by the redundancies in compensation for a

curtailment of their benefits. These payments were made out of the assets of the Retirement Benefits Plan.

- (e) On 31st March, 20X2, the present value of the defined benefit obligation was ₹ 17 crores and the fair value of the assets of the Defined Benefit Plan was ₹ 14 crores.

Discuss how the above will be accounted in the books of Arunachalam Ltd. for the year 20X1-20X2. Also give the extracts of financial statements affected due to above transactions.

[RTP Nov 2023; Exam May 2024 (8 Marks)]

- Ans. 1. **Extract of Balance Sheet (Net Amount in the Balance Sheet)** (₹ in lakhs)

	31.3.20X2	1.4.20X1
PV of Defined Benefit Obligation (given)	(1,700.00)	(1,500.00)
FV of Plan Assets (given)	<u>1,400.00</u>	<u>1,300.00</u>
Net Defined Benefit Liability (under Long-term Provision)	<u>(300.00)</u>	<u>(200.00)</u>

2. **Extract of Statement of Profit and Loss**

	(₹ in lakhs)
Current service cost (given)	155.00
Past service cost (given)	37.50
Gain on settlement (₹ 200 lakhs – ₹ 187.50 lakhs)	(12.50)
Net interest on net defined benefit liability [₹ 75 lakhs - ₹ 65 lakhs]	<u>10.00</u>
Total to Statement of Profit and Loss	<u>190.00</u>

3. **Extract of Other Comprehensive Income (Remeasurements)**

	(₹ in lakhs)
Actuarial loss on defined benefit obligation (W.N.1)	(237.50)
Return on plan assets other than expected return (W.N.2)	<u>152.50</u>
Total	<u>(85.00)</u>

Working Notes:

1. **Defined Benefit Obligation Account**

Particulars	₹ in lakhs	Particulars	₹ in lakhs
To Plan Assets (benefits paid)	105.00	By Balance b/f (given) [balance as on 1.4.20X1]	1,500.00
To Curtailment and Settlement	200.00	By Current Service Cost	155.00
		By Interest Cost	75.00

		[5% on Opening balance]	
		By Past service cost	37.50
To Balance c/d (given) [balance as on 31.3.20X2]	1,700.00	By Actuarial Loss (balancing figure)	237.50
	2,005.00		2,005.00

2. Plan Assets Account

Particulars	₹ in lakhs	Particulars	₹ in lakhs
To Balance b/f (given) [balance as on 1.4.20X1]	1,300.00	By Defined Benefit Obligation [benefits paid]	105.00
To Expected Return [5% on Opening balance]	65.00	By Payments on curtailment and settlement	187.50
To Bank (contributions paid)	175.00	By Balance c/d (given) [balance as on 31.3.20X2]	1,400.00
To Actuarial Gain (balancing figure)	152.50		
	1,692.50		1,692.50

The above Defined Benefit Obligation Account and Plan Assets Account can alternatively be presented in a statement form as follows:

Defined Benefit Obligation		Plan Assets	
Particulars	₹ in lakhs	Particulars	₹ in lakhs
PV of Obligation b/f.	1,500.00	FV of Plan Assets b/f.	1,300.00
Interest Cost [₹ 1,500 x 5%]	75.00	Interest Income [₹ 1,300 x 5%]	65.00
Current Service Cost	155.00	Contribution during 20X1-20X2	175.00
Benefits paid during 20X1-20X2	(105.00)	Benefits paid during 20X1-20X2	(105.00)
Plan Curtailment and Settlement	(200.00)	Payment towards settlement	(187.50)
Past Service Cost	37.50		
Remeasurement Loss (balancing figure)	237.50	Remeasurement Gain (balancing figure)	152.50
PV of Obligation c/f.	1,700.00	FV of Plan Assets c/f.	1,400.00

NOTES

A large rectangular area with rounded corners, containing numerous horizontal dotted lines for writing notes.