# AS 15 - Employee Benefits

1) Accounting For "Post Employement" & "Other Long Term" Benefits

Eg. :- Gratuity, PF, Pension, Long Term

**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 :

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| PVF | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 |
| | | | | 1 | |

Solution :-

Step 1 :- Calculate Estimated Defined Benefit to Employee

$$(600000 \times 1.07 \times 1.07 \times 1.07 \times 1.07) \times 8\% \times 5$$

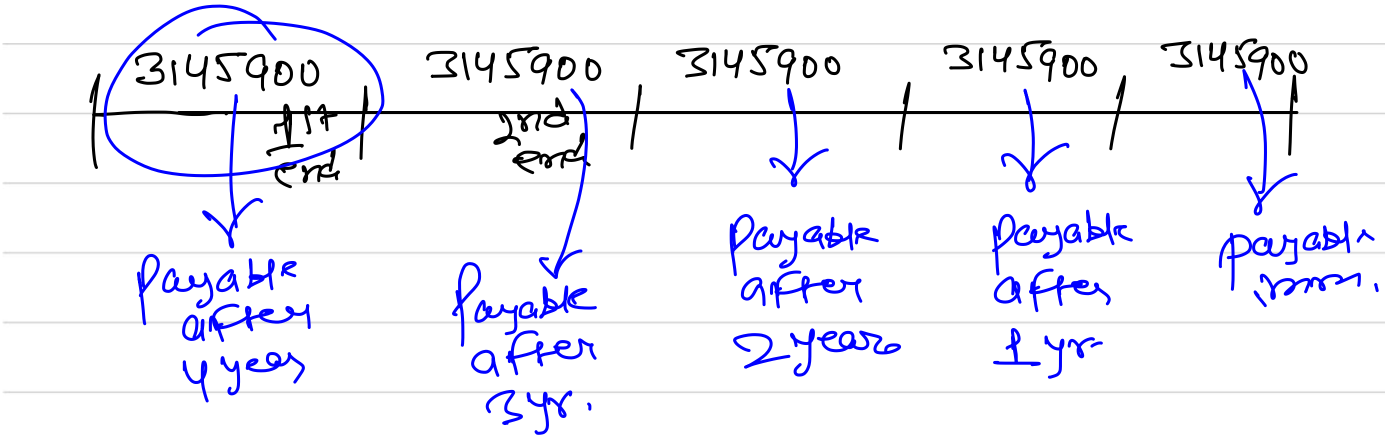
$$3,14,590/- \times 50 = 1,57,29,500$$

(Entity should make sufficient provision of this Bonus from 1st yr onwards as per prudence Concept)

Step 2 :- Allocation of Defined Benefit to each year

$$\text{Annual D. Benefit} = \frac{15729500}{5} = 31,45,900/-$$

Future Value




## Step 3 :- Calculate Current Service Cost (CSC)

| Year | Annual Benefit (Future Values) | Payable after | PV @ 10% | |
|---|---|---|---|---|
| 1 | 3145900 | 4 yr. | 0.683 | = 21,48,650 |
| 2 | " | 3 yr. | 0.751 | = 23,62,571 |
| 3 | " | 2 yr. | 0.826 | = 25,98,513 |
| 4 | " | 1 yr. | 0.909 | = 28,59,623 |
| 5 | 3145900 | immediately | × 1 | = 31,45,900 |

**Note:-** CSC means Cost to employer (i.e 2148650) which is accrued today against employee's Service But it will be payable in Future along with 10% Interest

## Step 4 :- Journal Entry :-

1st yr. Current Service Cost (Bonus) Dr. 2148650
To Def. Benf Obligation a/c 2148650
(DBO) Payable

2nd yr.

CSC (Bonus) Dr. 2362571 → EBE
To DBO a/c 2362571

Int. Cost Dr. 214865 → F/c
To DBO a/c 214865
payable → Long Term provisions (Non Current Liab.)

Steps :- Calculation of Interest Cost :-

| Year | OP. DBO | (at end) Cy CSC | at end Int. Cost | Clos. DBO |
|---|---|---|---|---|
| 1 | – | 2148650 | 0 | 2148650 |
| 2 | 2148650 | 2362571 | 214865 | 4726086 |
| 3 | 4726086 | 2598513 | 472609 | 7797208 |
| 4 | 7797208 | 2859623 | 779721 | 1,14,36,552 |
| 5 | 1,14,36,552 | 31,45,900 | 11,47,048 | 15729500 |

Cy CSC ↓ Employee Benf. Exp.

Int. Cost ↓ Fin. Cost (P&L)

1) CSC Dr. 2148650
To DBO pay. 2148650

2) CSC Dr. 2362571
IC Dr. 214865
To DBO Payable 2577436

5th yr. Payment

DBO Payable 15729500
To Bank 15729500

Q101 Step 1 :- 30,00,000

Step 2 :- 600000

Step 3 :-

| | | | CSC |
|---|---|---|---|
| 1 | 600000 | 0.735 | 441000 |
| 2 | 600000 | 0.794 | 476400 |
| 3 | 600000 | 0.857 | 514200 |
| 4 | 600000 | 0.926 | 555600 |
| 5 | 600000 | 1 | 600000 |

Step 4 :- IC

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| 0 | 35280 | 76214 | 123448 | 177858 |

# "Post Employement Benefits" & "Other Long Term Benefits"

## Defined Benefit plans (DBP)

Final Benefit to employee = Fixed
Every Year's Contribution by Employer = Variable
— Gratuity, Pension

Accounting as per "Projected Unit Credit method" applied by Actuary

Actuary shall estimate the Discounting Rate, Salary Increase Rate & it is Subject to Change every year

Following Calculation are Required

### DBO Payable

Step 1 = Est. Defined Benf.

Step 2 = allocation

Step 3 = CSC (Ulta Discounting)

Step 4 = IC

### Change in Actuarial Valuation due to New Dis. Rate Salary Increase Rate

Change in DBO

- DBO Increase → Actuarial Loss
- DBO decrease → Actuarial Gain

### Plan Assets

Investment by Employer for the purpose of DBO

PTO

## Defined Contribution plans (DCP)

Provident Fund:
Final Benefit to employee = Variable
Every Year's Contribution by Employer = Fixed

Accounting

a) Employer's Contribution Exp Dr.
   To EPF Payable a/c

b) EPF Payable Dr.
   To Bank a/c

P&L P&L

Act. Loss (P&L) Dr.
To DBO Payable

DBO Payable Dr.
To Act. Gain (P&L)

Plan Assets (Investment)

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

Note:- Actual Return on plan Asset = Estimated Return +/- Actuarial Gain/Loss

Note:- Net Interest Cost :- I.C on DBO (-) Est Ret. on Plan Asset

Note:- Net DBO Liability (or) Net DBO Surplus ⇒ Closg DBO Payable (-) Closg Plan Asset

Positive / (Negative)

Liability / Surplus (Asset)