

TOPIC 16

ACCOUNTING STANDARD - 15

EMPLOYEE BENEFITS

Total No. of Questions 16

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Series 100 - LONG TERM AND POST EMPLOYEMENT BENEFITS

Q.AS15.SM.101 (Defined Benefit Obligation)

An employee Roshan has joined a company XYZ Ltd. in the year 20X1. The annual emoluments of Roshan as decided is ₹14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring. Thus he will get 5 yearly increment.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)



Q.AS15.SM.102 (Similar to MTP Sep'24) (Actuarial Gains/Losses)

Omega Limited belongs to the engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹2 lakhs instead of ₹5 lakhs. The average remaining life of the employees is estimated to be 6 years. You are required to advise the company on the following items from the viewpoint of finalization of accounts, taking note of the mandatory accounting standards.

Q.AS15.SM.103 (Plan Assets and Return on Plan Assets)

The following data apply to 'X' Ltd. defined benefit pension plan for the year ended 31.03.20X2 calculate the actual return on plan assets:

Benefits paid	2,00,000
Employer contribution	2,80,000
Fair market value of plan assets on 31.03.20X2	11,40,000
Fair market value of plan assets as on 31.03.20X1	8,00,000

Q.AS15.SM.104 (Plan Assets and Return on Plan Assets)

As on 1st April, 20X1 the fair value of plan assets was ₹1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 20X1 the plan paid out benefits of ₹19,000 and received inward contributions of ₹49,000. On 31st March, 20X2 the fair value of plan assets was ₹1,50,000 and present value of the defined benefit obligation was ₹1,47,920. Actuarial losses on the obligations for the year 20X1- 20X2 were ₹600.

On 1st April, 20X1, the company made the following estimates, based on its market studies, understanding and prevailing prices

	%
Interest & dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Fund administrative costs	(1.00)
Expected Rate of Return	10.25

You are required to find the expected and actual returns on plan assets.

Q.AS15.SM.105 (Plan Assets and Return on Plan Assets)

The fair value of plan assets of Anupam Ltd. was ₹ 2,00,000 in respect of employee benefit pension plan as on 1st April, 20X1. On 30th September, 20X1 the plan paid out benefits of ₹25,000 and received inward contributions of ₹55,000. On 31st March, 20X2 the fair value of plan assets was ₹3,00,000. On 1st April, 20X1 the company made the following estimates, based on its market studies and prevailing prices

	%
Interest and dividend income (after tax) payable by fund	10.25
Realized gains on plan assets (after tax)	3.00
Fund administrative costs	(3.00)
Expected rate of return	10.25

Calculate the expected and actual returns on plan assets as on 31st March, 20X2, as per AS 15.

Q.ASIS.SM.106 (Curtailment and Settlement)

Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹18 (10% of ₹180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

- Immediately before the curtailment, gross obligation is estimated at ₹6,000 based on current actuarial assumption.
- The fair value of plan assets on the date is estimated at ₹5,100.
- The unamortized past service cost is ₹180.
- Curtailment reduces the obligation by ₹600, which is 10% of the gross obligation.

**Q.ASIS.SM.107**

A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively, employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

- Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.
- Since it is not related to the length of service of the employees, it is accounted for on claim basis. State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer.

**Q.ASIS.OM.108: (CA FINAL)**

Balance of Present Value of Defined Benefit Obligations	15,00,000
Balance of Plan Assets	10,00,000



Actuary Report Specifies:

Current Service Costs	3,00,000
Interest Cost	20,000
Contributions to Plan Assets at the Mid of Year	1,50,000
Benefit Paid at the mid of year	2,40,000
Expected Return	12% p.a.

Closing Value of Present Value of Defined Benefit Obligations 17,00,000

Closing Value of Plan Assets at Fair Value 10,20,000

Journalise, Prepare ledgers and Extracts of Balance sheet and Profit and Loss account along with disclosures.

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.

Q.ASIS.RMP.110: (Jan'25 EXAMS)

What is the difference between Defined Contribution Plan and Defined Benefit Plan? From the following information calculate the amount of defined benefit liability / asset:

Particulars	₹ in lakhs
Present Value of Defined Benefit Obligation as on 31-3-2024	36.0
Fair Value of Plan asset	38.5
Past service cost not yet recognized	7.5
Present value of available future refund from the plan	6.0

SOLUTIONS OF ABOVE QUESTIONS OF SERIES 100

Solution Q101

Calculation of Defined Benefit Obligation (DBO)

Expected last drawn salary	$\text{₹ } 14,90,210 \times 110\% \times 110\% \times 110\% \times 110\% \times 110\%$	₹24,00,000
Defined Benefit Obligation (DBO)	$\text{₹ } 24,00,000 \times 25\% \times 5$	₹30,00,000

Amount of ₹ 6,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

Calculation of Current Service Cost

Year	Equal apportioned amount of DBO [i.e. ₹ 30,00,000/5 years]	Discounting @ 8% PV factor	Current service cost (Present Value)
a	b	c	d = b × c
1	6,00,000	0.735 (4 Years)	4,41,000
2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

Calculation of Interest Cost to be charged per year

	Opening balance	Interest cost	Current service cost	Closing balance
a	b	c = b × 8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22,141
5	22,22,141	1,77,859*	6,00,000	30,00,000

*Due to approximations used in calculation, this figure is adjusted accordingly

Assume in Q. 101 at Beginning of 3rd year. There is a change in Actuarial Assumptions & due to such Change the Revised Estimated DBO Liability at Beginning of 3rd year is Rs. 10,10,000/-

Solution:

Carrying Amt of DBO Payable at 2 nd year. end/3 rd Year Beginning	9,52,680
Revised Balance of DBO Payable	10,10,000
Increase in DBO Liability (Actuarial Loss)	57,320
Actuarial Loss (P&L) Dr	57,230
To DBO Payable A/c	57,230

Further Current Service Cost and Interest Cost from 3rd Year onwards will also be Revised based on New Revised Liability.

Solution Q102

According to AS 15 (Revised 2005) 'Employee Benefits', actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus amount of ₹6 lakhs is required to be credited to the profit and loss statement of the current year.

SOLUTION Q103

		₹
Fair value of plan assets on 31.3.20X1 (Opening Bal.)		8,00,000
Add: Employer contribution		2,80,000
Less: Benefits Paid		(2,00,000)
	(A)	8,80,000
Fair market value of plan assets at 31.3.20X2	(B)	11,40,000
Actual return on plan assets (B-A)		2,60,000

Solution Q104**Computation of Expected and Actual Returns on Plan Assets**

		₹
Return on ₹ 1,00,000 held for 12 months at 10.25%		10,250
Return on ₹ 30,000 (49,000-19,000) held for six months at 5% (equivalent to 10.25% annually, compounded every six months)		1,500
Expected return on plan assets for 20X1-20X2		11,750
Fair value of plan assets as on 31 March, 20X2		1,50,000
Less: Fair value of plan assets as on 1 April, 20X1	1,00,000	
Contributions received	<u>49,000</u>	(1,49,000)
		1,000
Add: Benefits paid		19,000
Actual return on plan assets		20,000

Alternatively, the above question may be solved without giving compound effect to rate of return.

SOLUTION Q105**Computation of Expected Returns on Plan Assets as on 31st March, 20X2, as per AS 15**

	₹
Return on opening value of plan assets of ₹2,00,000 (held for the year) @ 10.25%	20,500
Add: Return on net gain of ₹30,000 (i.e. ₹55,000 - ₹25,000) during the year i.e. held for six months @ 5% (equivalent to 10.25% annually, compounded every six months)	1,500
Expected return on plan assets as on 31st March, 20X2	22,000

Computation of Actual Returns on Plan Assets as on 31st March, 20X2, as per AS 15

	₹	₹
Fair value of Plan Assets as on 31 st March, 20X2		3,00,000
Less: Fair value of Plan Assets as on 01/04/X1	(2,00,000)	
Add: Contribution received on 30/09/X1	55,000	(2,55,000)
Add: Benefits paid as on 30 th September, 20X1		45,000
		25,000
Actual returns on Plan Assets as on 31st March, 20X2		70,000

Solution Q106

Gain from curtailment is estimated as under:

	₹
Reduction in gross obligation	600
Less: Proportion of un-amortised past service cost	(18)
Gain from curtailment	582

The liability to be recognised after curtailment in the balance sheet is estimated as under:

	₹
Reduced gross obligation (90% of ₹ 6,000)	5,400
Less: Fair value of plan assets	(5,100)
Less: Un-amortised past service cost (90% of ₹80)	300
Liability to be recognised in the balance sheet	(162)
Liability to be recognised in the balance sheet	138

Answer: Q107

The present case falls under the category of **defined benefit scheme** under Para 49 of AS 15 (Revised) "Employee Benefits". The said para encompasses cases where payment promised to be made to an employee at or near retirement presents significant difficulties in the determination of periodic charge to the statement of profit and loss. The contention of the Company that the settlement allowance **will be accounted for on claim basis is not correct** even if company's obligation under the scheme is uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events, which are largely outside the company's control. Thus,

- 1) Settlement allowance payable by the company is a defined retirement benefit, covered by AS 15 (Revised)
- 2) A provision should be made every year in the accounts for the accruing liability on account of settlement allowance. The amount of provision should be calculated according to **actuarial valuation**.
- 3) Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances.

Solution: Q108

DOB Payable a/c			
To Bank (Benefits)	2,40,000	By Opening Balance	15,00,000
		By Current Service Cost	30,00,000
		By Interest Cost	20,000
By Closing Balance	17,00,000	By Actuarial Loss (b/f)	1,20,000
Plan Asset			
To Opening Balance	10,00,000	By Bank A/c	2,40,000
To Bank	1,50,000	By Actuarial Loss B/F	
To Expected Return	1,14,753		
(a) 1,20,000			
(b) 5,247		By Closing Balance	10,20,000

Solution: Q109

Computation of Expected and Actual Returns on Plan Assets

	₹
Return on ₹ 5,00,000 held for 12 months at 10.50%	52,500
Return on ₹ 1,42,000 for 6 months at 10.50%	7,455

Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%	<u>(2,205)</u>
Expected return on plan assets for 2023-2024	<u>57,750</u>
Fair value of plan assets as on 31 st March 2024	<u>7,50,000</u>
Less: Fair value of plan assets as on 1 April, 2023 5,00,000	
Contributions received on 30.9.2023 <u>1,42,000</u>	<u>(6,42,000)</u>
	<u>1,08,000</u>
Add: Benefits paid on 30 th Nov 2023	<u>63,000</u>
Actual return on plan assets	<u>1,71,000</u>

Solution: Q110

Difference between Defined Contribution Plan and Defined Benefit Plan:

S No.	Defined Contribution Plan	Defined Benefit Plan
1	Fixed Contributions are paid by the employer into a separate fund and will have no obligation to pay further contributions.	Detailed actuarial calculation is performed to determine the charge.
2	The employer has no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits and the employee has to bear the investment and actuarial risk.	The employer ensures that sufficient funds are available to meet the promised benefits regardless of fund performance and the actuarial and investment risk fall on the employer.

Computation of defined benefit liability / Asset:

Particulars	₹ in lakhs
Present value of the defined benefit obligation as on 31.3.2024	36.00
Less: Past service cost not yet recognized	(7.50)
	28.50
Less: The fair value of plan assets	(38.50)
Defined benefit Asset	10.00

In case where fair value of plan assets is high, it may so happen that the net amount under defined benefit liability turns negative (giving rise to net assets).

As per AS 15 the enterprise, in such a situation, should measure the resulting asset **at the lower of:**

- (i) the amount so determined, i.e. ₹ 10 lakh; and
- (ii) the present value of available future refunds from the plan i.e. ₹ 6 lakh. Therefore, defined benefit asset will be recognised at ₹ 6 lakhs.

SERIES 200 - SHORT TERM EMPLOYEE BENEFITS**Q.ASIS.SM.201**

Whether an entitlement to earned leave which can be carried forward to future periods is a short-term employee benefit or a long-term employee benefit

**Q.ASIS.SM.202**

In case an enterprise allows unutilised employee benefits, e.g., medical care, leave travel, etc., to be carried forward, whether it is required to recognise a provision in respect of carried forward benefits.

Q.ASIS.OM.203: (CA FINAL)

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.

**Q.ASIS.SM.204**

What are the kinds of employees covered in the revised AS 15 and whether a formal employer employee relationship is necessary or not, for benefits to be covered under the Standard?

Q.ASIS.SM.205

Whether an enterprise is required to provide for employee benefits arising from informal practices?

Q.ASIS.SM.206

Entity XY is required to pay salary of ₹ 2 crore for the year 20X1-X2. It actually paid a salary of ₹ 1.90 crore up to 31st March 20X2, and balance in April 20X2.

Determine the actual costs to be recognized in the year 20X1-X2 and any amounts to be shown through balance sheet

SOLUTIONS OF ABOVE QUESTIONS OF SERIES 200

Solution 201

Paragraph 8(b) of the Standard illustrates the term 'Short-term benefits' to include "short term compensated absences (such as paid annual leave) where the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service". Where employees are entitled to earned leave which can be carried forward to future periods, the benefit would be a 'short-term benefit' provided the employee is entitled to either encash or utilise the benefit during the twelve months after the end of the period when the employee became entitled to the leave and is also expected to utilize the leave.

Where there are restrictions on encashment and/or avilment, clearly the compensated absence has not fallen due and the benefit of compensated absences is more likely to be a long-term benefit. For example, where an employee has 100 days of earned leave which he is entitled to an unlimited carry forward, but the rules of the enterprise allow him to encash/utilise only 30 days during the next twelve months, the benefit would be considered as a 'long-term' benefit. In some situations, where there is no restriction but the absence is not expected to wholly occur in the next twelve months, the benefit should be considered as 'long-term'. For example, where an employee has 400 days carry forward earned leave and the past pattern indicates that the employees are unlikely to avail / encash the entire carry forward during the next twelve months, the benefit would not be 'short-term'

The categorisation in 'short-term' or 'long-term' employee benefits should be done on the basis of the overall behavioral pattern of all the employees of the enterprise and not on individual basis.

Solution Q202

A provision should be recognised for all benefits (conditional or unconditional) which an employee becomes entitled to as a result of rendering of the service and should be recorded as part of the cost of service rendered during the period in which the service was rendered which resulted in the entitlement. In estimating the cost of such benefit the probability of the employee availing such benefit should be considered.

SOLUTION Q203

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 = Rs. 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.

SOLUTION Q204

The Standard does not define the term "employee". Paragraph 6 of the Standard states that 'an employee may provide services to an enterprise on a full time, part time, permanent, casual or temporary basis and the term would also include the whole-time directors and other management personnel. The Standard is applicable to all forms of employer employee relationships. There is no requirement for a formal employer employee relationship. Several factors need to be considered to determine the nature of relationship.

Generally, 'outsourcing contracts' may not meet the definition of employer - employee relationship. However, such contracts need to be carefully examined to distinguish between a "contract of service" and a "contract for services". A 'contract for services' implies a contract for rendering services, e.g., professional or technical services which is subject to limited direction and control whereas a 'contract of service' implies a relationship of an employer and employee, and the person is obliged to obey orders in the work to be performed and as to its mode and manner of performance.

SOLUTION Q205

Paragraph 3(c) of the Standard defines employee benefits to include those informal practices that give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits. The historical pattern of granting such benefits, the expectation created and the impact on the relationship with employees in the event such benefit is withdrawn should be considered in determining whether the informal practice gives rise to a benefit covered by the Standard. For example, where an employer has a practice of making a lumpsum payment on occasion of a festival or regularly grants advances against informal benefits to employees it would be necessary to provide for such benefits.

Careful judgement should be applied in assessing whether an obligation has arisen particularly in instances where an enterprise's practice is to provide improvements only during the collective bargaining process and not during any informal process. If the employer has not set a pattern of benefits that can be projected reliably to give rise to an obligation there is no requirement to provide for the benefits.

However, if the practice established by an employer was that of a consistent benefit granted either as part of union negotiations or otherwise that clearly established a pattern (e.g., a cost of living adjustment or fixed rupee increase), it could be concluded that an obligation exists and that those additional benefits should be included in the measurement of the benefit obligation.

Employee benefits include:

- (a) Short-term employee benefits (e.g., wages, salaries, paid annual leave and sick leave, profit sharing bonuses etc. (payable within 12 months of the year-end) and non-monetary benefits for current employees.
- (b) Post-employment benefits (e.g., gratuity, pension, provident fund, postemployment medical care etc.).
- (c) long-term employee benefits (e.g., long-service leave, long-term disability benefits, bonuses not wholly payable within 12 months of the year end etc.), and
- (d) termination benefits (e.g. VRS payments)

The Standard lays down recognition and measurement criteria and disclosure requirements for the above four types of employee benefits separately.

SOLUTION Q206

Total expense for the year (20X1-X2)

₹ 2 crore

Amount to be shown under liability (unpaid)

₹ 2 crore – ₹ 1.90 crore

= ₹ 10 lakhs