AS 15 Employee Benefits

Question 1

Kumar Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of Rs. 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs. 2 lakhs instead of Rs. 5 lakhs. The average remaining life of the employee is estimated to be 6 years. You are required to advise the company. (MTP May 20)

Answer 1

According to para 92 of AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of Rs. 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Kumar Ltd. cannot spread the actuarial gain of Rs. 6 lakhs over the next 2 years by reducing the annual contributions to Rs. 2 lakhs instead of Rs. 5 lakhs. It has to contribute Rs. 5 lakhs annually for its pension schemes.

Question 2

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:

1. ***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.***
2. ***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. (MTP 5 Marks Aug 18)

Answer 2

The present case falls under the category of defined benefit scheme under Para 49 of AS 15 "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 uncertainand requires estimation. In estimating the obligation, assumptions may need to be made regardingfuture conditions and events, which are largely outside the company's control. Thus,

Settlement allowance payable by the company is a defined retirement benefit, covered by AS 15.

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.
Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances

Question 3

Samvit Ltd. has three business segments which are FMCG, Batteries and Sports Equipment. The Battery segment has been consistently underperforming and Samvit Ltd. after several discussions with labour unions have finally decided on closure of this segment. Under the agreement with the labour union, the employees of the Battery Segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished:
The value of gross obligations before the curtailment calculated on actuarial basis was Rs. 6,000 lakhs.
The value of unamortized past service costs is Rs. 150 lakhs.
The curtailment will bring down gross obligations by Rs. 750 lakhs and Samvit Ltd. anticipates a proportional decline in the value of unamortized past service costs also.
The fair value of plan assets on date is estimated at Rs. 4,875 lakhs.
You are required to calculate the gain from curtailment and also show the li ability to be recognized in the Balance Sheet of Samvit Ltd. after the curtailment. ***(Mar 17) (MTP) (5 Marks)***

Answer 3

Gain from curtailment

	(Rs. in lakhs
Reduction in gross obligation [(750/6,000) x 100] = 12.5%	750.
Less: Proportion of unamortized past service cost	
(12.5% of Rs. 150)	(18.75)
Gain from curtailment	731.25

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

	Rs.
Reduced gross obligation (Rs. 6,000 – Rs. 750)	5,250.00
Less: Fair value of plan assets	(4,875.00)
	375.00
Less: Unamortized past service cost (150.00 – 18.75)	(131.25)
Liability to be recognized in the balance sheet	243.75

Question 4

Luv limited is a private Limited company. As per HR policy of Luv Limited, Grade F employees are eligible for sabbatical leave (Long term compensated absences as per AS 15). Till previous year,there were 15 employees who are eligible for Sabbatical leave and company had duly recorded the liability for long term compensated absences based on the actuarial valuation for eligible employees. During the current period out of total 15 employees, 13 employees have left the organization and only 2 employees are continuing in LUV Limited. Due to budget constraint, CFO has denied to involve actuary and told finance manager to determine the liability based on the recent actuarial report available with them. Finance manager ensured the following:

- ***There is no material change in interest rate***
- ***There is no change in fair value of plan assets.***

Based on that, Finance manager have manually computed an amount of Rs. 5,00,000 (considering last year actuarial report as base) towards long term compensation liability without involving Actuary during the period ended 31.03.2020. Is this treatment is in line with AS 15? ***(RTP Nov 20)***

Answer 4

As per para 58 of the AS 15, the detailed actuarial valuation of the present value of defined benefit obligations may be made at intervals not exceeding three years. However, with a view that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date, the most recent valuation is reviewed at the balance sheet date and updated to reflect any material transactions and other material changes in circumstances (including changes in interest rates) between the date of valuation and the balance sheet date. The fair value of any plan assets is determined at each balance sheet.

Since AS−15 (Para 58) states that actuarial valuation needs to be done at least once in three years. Since management had done the actuarial valuation in Previous Year, they can go ahead with exemption for this year subject to evaluation and conclusion by management as at balance sheet date that there are no significant changes in the amount of liability compared to previous year. Hence working done by the finance manager is appropriate. It is in line with AS 15, since company had recently done the actuarial valuation in previous year and there is no material changes in the external environment.

Question 5

Synergy Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of Rs. 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs. 2 lakhs instead of Rs. 5 lakhs. The average remaining life of the employee is estimated to be 6 years. You are required to advise the company.

(RTP Nov 19)

Answer 5

According to para 92 of AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of Rs. 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Synergy Ltd. cannot spread the actuarial gain of Rs. 6 lakhs over the next 2 years by reducing the annual contributions to Rs. 2 lakhs instead of Rs. 5 lakhs. It has to contribute Rs. 5 lakhs annually for its pension schemes

Question 6

Peter 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.

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

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

(RTP May 19)(New SM)

Answer 6

Gain from curtailment is estimated as under:

	Rs.
Reduction in gross obligation	*600*
Less: Proportion of unamortized past service cost	*(18)*
Gain from curtailment	*582*

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

	Rs.
Reduced gross obligation (90% of Rs. 6,000)	*5,400*
Less: Fair value of plan assets	*(5,100)*
	300
Less: Unamortized past service cost (90% of Rs. 180)	*(162)*
Liability to be recognized in the balance sheet	*138*

Question 7

Neerav Ltd., is in 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 employee is estimated to be 6 years. You are required to advise the company in accordance with AS 15. ***(RTP May 18)***

Answer 7

According to para 92 of AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of

₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Neerav Ltd. cannot spread the actuarial gain of ₹ 6 lakhs over the next 2 years by reducing the annual contributions to ₹ 2 lakhs instead of ₹ 5 lakhs. It has to contribute ₹ 5 lakhs annually for its pension schemes.

Question 8

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 the 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 employees. 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 should account for liability on an actual "on claim" basis.
State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer. ***(RTP May 17)***

Answer 8

The present case falls under the category of defined benefit scheme under AS 15 "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.*
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.*