AS 15: EMPLOYEE BENEFITS

15.1 Applicability: all enterprises (some exemptions are given to enterprises other than Level 1 enterprises) (since 1-4-2006)

15.2 Deals with: accounting for all employee benefits, except employee share-based payments

15.3 Employee benefits: are all forms of consideration given by an enterprise in exchange for service rendered by employees. These include:

- **a.** Short-term employee benefits
- **b.** Post-employment benefits
- **c.** Other long-term employee benefits
- **d.** termination benefits. (e.g. VRS)

Note:

- ➢ Employee benefits include benefits provided to either employees or their dependents.
- ➢ employee benefits can be paid in cash or in kind ;
- ➢ payment can be made directly to employees, their dependent or to any other party.
- ➢ An employee may provide services to an enterprise on a full-time, part-time, permanent, casual or temporary basis.
- ➢ Employees include whole-time directors and other management personnel.

15.4 Short-Term Employee Benefits (payable within 12 months after the period when the service is rendered)

15.4.1 Classification:

- **(i)** regular period benefits (e.g., wages, salaries);
- **(ii)** short-term compensated absences (expected to occur within 12 months), e.g., paid annual leave;
- **(iii)** profit sharing and bonuses payable within 12 months; and
- **(iv)** non-monetary benefits (e.g., medical care, housing, cars etc.)

15.4.2 Accounting:

General recognition criteria:

- ➢ the **undiscounted** amount of all short term employee benefits, attributable to services that been already rendered in the period, should be recognized as an expenses (unless another AS permits a different treatment)
- ➢ Any difference between the amount of expenses so recognized and cash payments made during the period should be treated as a liability or prepayment (asset).

Short-term compensated absences: **expected cost should be recognized:-**

- **a) In case of accumulating compensated absences:** (whether vesting* or non-vesting): when the employees render service that increases their entitlement to future compensated absences**; and**
- **b) in the case of non-accumulating compensated absences:** when the absences occur (they are automatically accounted for)

***vesting**: employee is entitled for cash payment for un-availed absences at the time of leaving enterprise.

Profit-sharing and Bonus Plans: expected cost of profit-sharing and bonus payments should be recognized only when:

- **a)** the enterprise has a **present obligation*** to make such payments as a result of **past events**; and
- **b)** a **reliable estimate** of the obligation can be made.

* A present obligation exists when, and only when, the enterprise **has no realistic alternative** but to make the payments.

15.5 Post Employment Benefits:

15.5.1 Defined Contribution Vs Defined Benefits

A. Defined contribution Plan: under it

- a. an enterprise pays fixed contributions into a separate fund; and
- b. actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

B. Defined benefits plans: under it

- a. the enterprise's obligation is to provide the agreed benefits to current and former employees; and
- b. actuarial risk and investment risk fall, in substance, on the enterprise.

15.5.2 Accounting:

A. Defined contribution Plan

a. When contribution falls payable within 12 months:

- the **undiscounted** amount of contribution payable in exchange of services rendered in the period, should be recognized as an expenses (unless another AS permits a different treatment)
- Any difference between the amount of expenses so recognized and contribution already paid during the period should be treated as a liability or prepayment (asset).

b. When contribution does not fall payable within 12 months:-should be accounted for at discounted amount.

Legal obligation under the formal terms of a defined benefit plan as well as under enterprise's informal practices, should be accounted for. Informal practices give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits.

B. Defined Benefit Plan: [may be un-funded or partly or wholly funded]

a. Presentation in Balance Sheet: Recognize the amount (net of followings) **as defined benefit liability:**

- P.V. of the **defined benefit obligation** (and the related current service cost and, where applicable, past service cost) at the balance sheet date;
- less: any **past service cost not yet recognised**;
- less: fair value at the balance sheet date of **plan assets** (if any) out of which the obligations are to be settled directly.

Note: if above net amount is negative, it will result as an asset which should be measured lower of the:

- amount determined as above; and
- P.V. of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

b. Presentation in Statement of Profit and Loss: The amount (net of followings) should be **recognized in P&L a/c**, except to the extent that another AS requires or permits their inclusion in the cost of an asset:

(i) current service cost;
(ii) interest cost;
(iii) the expected return on any plan assets and on any reimbursement rights;
(iv) actuarial gains and losses;
(v) past service cost to the extent to be recognisable;
(vi) the effect of any curtailments or settlements; and
(vii) the effect of the limit for plan asset referred to in the note above

15.5.3 Measurement of amounts referred to above:

(i) P.V. of the **defined benefit obligation** at the balance sheet date:

The followings are the steps for measuring the P.V. of the **defined benefit obligation**:-

1. **Apply an actuarial valuation method [Projected Unit Credit Method]:** it considers each period of service as giving rise to an additional unit of benefit entitlement and **measures each unit separately to build up the final obligation**.
2. **Attributing Benefit to Periods of Service under the plan's benefit formula.**
   The benefits are to be attributed on a straight-line basis from
   - the date when service by the employee first leads to benefits under the plan; until
   - the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.
3. **make actuarial assumptions: [should be unbiased and mutually compatible] it comprise demographic assumptions** [about the future characteristics of current and former employees] **and financial assumptions [based on market expectations, at the balance sheet date]** it deals with discount rate, future salary and benefit levels, future medical costs; and expected rate of return on plan assets etc.
   Note: The rate used to discount post-employment benefit obligations should be determined by reference to market yields at the balance sheet date on government bonds.

(ii) Past Service cost:

- Past service cost is the change in the present value of the defined benefit obligation for **employee service in prior periods**, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

- It should be recognized as an expense on a straight line basis over the average period until the benefits become vested.
- To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost immediately.

(iii) Fair Value of Plan Assets

- When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate.
- Plan assets exclude unpaid contributions due, as well as any non-transferable financial instruments issued by the enterprise and held by the fund.
- Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits
- Where plan assets include **qualifying insurance policies** that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations.

(iv) Current service cost: Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
The Current Service Cost is the present value of benefit attributed to the current year.

(v) Interest cost: is computed by **multiplying** the **discount rate** as determined at the start of the period by the **present value of the defined benefit obligation throughout that period**, taking account of any material changes in the obligation.

(vi) the expected return on any plan assets and on any reimbursement rights

- The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation.
- The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss.

(vii). Actuarial Gains and Losses: Actuarial gains and losses should be recognised immediately in the statement of profit and loss as income or expense.
Actuarial gains and losses: may result from increases or decreases in either the P.V. of

- A defined benefit obligation or
- the fair value of any related plan assets.

(viii) Curtailments and Settlements

The gain or loss on a curtailment or settlement should comprise:

a) any resulting change in the present value of the defined benefit obligation;
b) any resulting change in the fair value of the plan assets;
c) any related past service cost that had not previously been recognised.

15.6 OTHER LONG TERM EMPLOYEE BENEFITS: include:-

a) long-term compensated absences such as long-service or sabbatical leave;
b) jubilee or other long-service benefits;
c) long-term disability benefits;
d) profit-sharing and bonuses payable 12 months or more after the end of the period, and
e) deferred compensation paid 12 months or more after the end of the period.

15.7 Termination Benefits

An enterprise should **recognise** termination benefits as a liability and an expense when, and only when:

a. the enterprise has a present obligation as a result of a past event;
b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
c. a reliable estimate can be made of the amount of the obligation.

15.8 DISCLOSURE

15.8.1 Short-term employee benefits

- No specific disclosures.
- information about employee benefits for key management personnel as required by AS 18 Related Party.

15.8.2 Post-employment benefits

a. Defined contribution plan:

- amount recognised as an expense.
- information about employee benefits for key management personnel as required by AS 18 Related Party.

b. Defined Benefit Plan:

- accounting policy for recognising actuarial gains and losses.
- a general description of the type of plan.
- a reconciliation of opening and closing balances of the present value of the defined benefit obligation.
- an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.
- a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset.
- a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance sheet.
- **the total expense recognised in the statement of profit and loss for each respective items.**
- **And other disclosure…**

15.8.3 Other long-term employee benefits:

- No specific disclosures.
- information about employee benefits for key management personnel as required by AS 18 Related Party.
- where the expense resulting from such benefits is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period (as required by AS-5)

15.8.4 termination benefits. (e.g. VRS)

- Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by AS 29, information about the contingent liability unless the possibility of an outflow in settlement is remote.
- information about employee benefits for key management personnel as required by AS 18 Related Party.
- where the expense resulting from such benefits is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period (as required by AS-5)

  Note: As per the transitional provision of revised AS 15, as regards VRS as paid upto 31 March, 2009, there is a choice to defer it over pay back period, subject to prohibition on carry forward to periods commencing on or after 1 April, 2010.