Indian Accounting Standard (Ind AS) 19

Employee Benefits

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Indian Accounting Standard (Ind AS) 19
Employee Benefits

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Objective

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

1 **This Standard shall be applied by an employer in accounting for all employee benefits, except those to which Ind AS 102 *Share-based Payment* applies.**

2 This Standard does not deal with reporting by employee benefit plans (see Ind AS 26 *Accounting and Reporting by Retirement Benefit Plans*).

3 The employee benefits to which this Standard applies include those provided:

(a) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives;

(b) under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry or other multi-employer plans; or

(c) by those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

4 Employee benefits include:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and

(d) termination benefits.

Because each category identified in (a)–(d) above has different characteristics, this Standard establishes separate requirements for each category.

5 Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.

6 An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

Definitions

7 **The following terms are used in this Standard with the meanings specified:**

Employee benefits **are all forms of consideration given by an entity in exchange for service rendered by employees.**

Short-term employee benefits **are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.**

Post-employment benefits **are employee benefits (other than termination benefits) which are payable after the completion of employment.**

Post-employment benefit plans **are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.**

Defined contribution plans **are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.**

Defined benefit plans **are post-employment benefit plans other than defined contribution plans.**

Multi-employer plans **are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:**

(a) pool the assets contributed by various entities that are not under common control; and

(b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Other long-term employee benefits **are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.**

Termination benefits **are employee benefits payable as a result of either:**

(a) an entity's decision to terminate an employee's employment before the normal retirement date; or

(b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Vested employee benefits **are employee benefits that are not conditional on future employment.**

The *present value of a defined benefit obligation* **is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.**

Current service cost **is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.**

Interest cost **is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.**

Plan assets **comprise:**

(a) assets held by a long-term employee benefit fund; and

(b) qualifying insurance policies.

Assets held by a long-term employee benefit fund **are assets (other than non-transferable financial instruments issued by the reporting entity) that:**

(a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and

(b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:

(i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

(ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

A qualifying insurance policy **is an insurance policy[*] issued by an insurer that is not a related party (as defined in Ind AS 24 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:**

(a) **can be used only to pay or fund employee benefits under a defined benefit plan; and**

(b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:

(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

(ii) **the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.**

Fair value **is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.**

[*] A qualifying insurance policy is not necessarily an insurance contract, as defined in IND AS 104 *Insurance Contracts*.

The *return on plan assets* **is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.**

Actuarial gains and losses **comprise:**

(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

(b) the effects of changes in actuarial assumptions.

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 (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases).**

Short-term employee benefits

8 Short-term employee benefits include items such as:

(a) wages, salaries and social security contributions;

(b) short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the period in which the employees render the related employee service;

(c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and

(d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

9 Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and measurement

All short-term employee benefits

10 **When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) **as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, Ind AS 2 *Inventories* and Ind AS 16 *Property, Plant and Equipment*).**

Paragraphs 11, 14 and 17 explain how an entity shall apply this requirement to short-term employee benefits in the form of compensated absences and profit-sharing and bonus plans.

Short-term compensated absences

11 **An entity shall recognise the expected cost of short-term employee benefits in the form of compensated absences under paragraph 10 as follows:**

(a) **in the case of accumulating compensated absences, 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.

12 An entity may compensate employees for absence for various reasons including vacation, sickness and short-term disability, maternity or paternity, jury service and military service. Entitlement to compensated absences falls into two categories:

(a) accumulating; and

(b) non-accumulating.

13 Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on

leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

14 An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

15 The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation.

Example illustrating paragraphs 14 and 15

An entity has 100 employees, who are each entitled to five working days of paid sick leave 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 (a LIFO basis). At 30 December 20X1, the average unused entitlement is two days per employee. The entity expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 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 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X1 (one and a half days each, for eight employees). Therefore, the entity recognises a liability equal to 12 days of sick pay.

16 Non-accumulating compensated absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and compensated absences for jury service or military service. An entity recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-sharing and bonus plans

17 **An entity shall recognise the expected cost of profit-sharing and bonus payments under paragraph 10 when, and only when:**

(a) the entity has a present legal or constructive 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 entity has no realistic alternative but to make the payments.

18 Under some profit-sharing plans, employees receive a share of the profit only if they remain with the entity for a specified period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example illustrating paragraph 18
A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of profit. The entity estimates that staff turnover will reduce the payments to 2.5% of profit. *The entity recognises a liability and an expense of 2.5% of profit.*

19 An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

20 An entity can make a reliable estimate of its legal or constructive obligation under a profit-sharing or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit;

(b) the entity determines the amounts to be paid before the financial statements are approved for issue; or

(c) past practice gives clear evidence of the amount of the entity's constructive obligation.

21 An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

22 If profit-sharing and bonus payments are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 126–131).

Disclosure

23 Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, Ind AS 24 requires disclosures about employee benefits for key management personnel. Ind AS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.

Post-employment benefits: distinction between defined contribution plans and defined benefit plans

24 Post-employment benefits include, for example:

(a) retirement benefits, such as pensions; and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

25 Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. Under defined contribution plans:

(a) the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

(b) in consequence, 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.

26 Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

(a) a plan benefit formula that is not linked solely to the amount of contributions;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

27 Under defined benefit plans:

(a) the entity's obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

28 Paragraphs 29–42 below explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, state plans and insured benefits.

Multi-employer plans

29 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:

(a) **account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**

(b) disclose the information required by paragraph 120A.

30 When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

(a) account for the plan under paragraphs 44–46 as if it were a defined contribution plan;

(b) disclose:

(i) the fact that the plan is a defined benefit plan; and

(ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and

(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:

(i) any available information about that surplus or deficit;

(ii) the basis used to determine that surplus or deficit; and

(iii) the implications, if any, for the entity.

31 One example of a defined benefit multi-employer plan is one where:

(a) the plan is financed on a pay-as-you-go basis such that: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

32 Where sufficient information is available about a multi-employer plan which is a defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) the entity does not have access to information about the plan that satisfies the requirements of this Standard; or

(b) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

In those cases, an entity accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph 30.

32A There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 30 shall recognise the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

Example illustrating paragraph 32A

An entity participates in a multi-employer defined benefit plan that does not prepare plan valuations on an Ind AS 19 basis. It therefore accounts for the plan as if it were a defined contribution plan. A non-Ind AS 19 funding valuation shows a deficit of Rs100 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 five years. The entity's total contributions under the contract are Rs 8 million.

The entity recognises a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

32B Ind AS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires an entity to disclose information about some contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:

(a) actuarial losses relating to other participating entities because each entity that participates in a multi-employer plan shares in the actuarial risks of every other participating entity; or

(b) any responsibility under the terms of a plan to finance any shortfall in the plan if other entities cease to participate.

33 Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard

require an entity to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Defined benefit plans that share risks between various entities under common control

34 Defined benefit plans that share risks between various entities under common control, for example, a parent and its subsidiaries, are not multi-employer plans.

34A An entity participating in such a plan shall obtain information about the plan as a whole measured in accordance with Ind AS 19 on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with Ind AS 19 to individual group entities, the entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged. If there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan. The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

34B Participation in such a plan is a related party transaction for each individual group entity. An entity shall therefore, in its separate or individual financial statements, make the following disclosures:

(a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) the policy for determining the contribution to be paid by the entity.

(c) if the entity accounts for an allocation of the net defined benefit cost in accordance with paragraph 34A, all the information about the plan as a whole in accordance with paragraphs 120-121.

(d) if the entity accounts for the contribution payable for the period in accordance with paragraph 34A, the information about the plan as a whole required in accordance with paragraphs 120A(b) –(e), (j), (n), (o), (q) and 121. The other disclosures required by paragraph 120A, do not apply.

35 [Refer to Appendix 1]

State plans

36 An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 29 and 30).

37 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.

38 State plans are characterised as defined benefit or defined contribution in nature based on the entity's obligation under the plan. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans, the entity has no legal or constructive obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the entity ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an entity applies the treatment prescribed in paragraphs 29 and 30.

Insured benefits

39 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:

(a) **pay the employee benefits directly when they fall due; or**

(b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

40 The benefits insured by an insurance contract need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance contracts are subject to the same distinction between accounting and funding as other funded plans.

41 Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a

related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) accounts for a qualifying insurance policy as a plan asset (see paragraph 7); and

(b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 104A).

42 Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-employment benefits: defined contribution plans

43 Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Recognition and measurement

44 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) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, Ind AS 2 and Ind AS 16 *t*).

45 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 specified in paragraph 78.

Disclosure

46 An entity shall disclose the amount recognised as an expense for defined contribution plans.

47 Where required by Ind AS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-employment benefits: defined benefit plans

48 Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Recognition and measurement

49 Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability (and willingness) to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

50 Accounting by an entity for defined benefit plans involves the following steps:

(a) using actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods. This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 67–71) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs 72–91);

(b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 64–66);

(c) determining the fair value of any plan assets (see paragraphs 102–104);

(d) determining the total amount of actuarial gains and losses, which shall all be recognised in other comprehensive income (see paragraphs 92–95);

(e) where a plan has been introduced or changed, determining the resulting past service cost (see paragraphs 96–101); and

(f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 109–115).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

51 In some cases, estimates, averages and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the constructive obligation

52 An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

53 The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees.

Balance sheet

54 The amount recognised as a defined benefit liability shall be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the end of the reporting period (see paragraph 64);

(b) [Refer to Appendix 1]

(c) minus any past service cost not yet recognised (see paragraph 96);

(d) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104).

55 The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.

56 An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

57 This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

58 The amount determined under paragraph 54 may be negative (an asset). An entity shall measure the resulting asset at the lower of:

(a) the amount determined under paragraph 54; and

(b) the total of:

(i) **any cumulative unrecognised past service cost (see paragraph 96); and**

(ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 78.

58A The application of paragraph 58 shall not result in a gain being recognised solely as a result of a past service cost in the current period. The entity shall therefore recognise immediately under paragraph 54 the following, to the extent that it arises while the defined benefit asset is determined in accordance with paragraph 58(b):

(a) past service cost of the current period to the extent that it exceeds any reduction in the present value of the economic benefits specified in paragraph 58(b)(ii). If there is no change or an increase in the present value of the economic benefits, the entire past service cost of the current period shall be recognised immediately under paragraph 54.

(b) [Refer to Appendix 1]

58B Paragraph 58A applies to an entity only if it has, at the beginning or end of the accounting period, a surplus* in a defined benefit plan and cannot, based on the current terms of the plan, recover that surplus fully through refunds or reductions in future contributions. In such cases, past service cost that arises in the period, the recognition of which is deferred under paragraph 54, will increase the amount specified in paragraph 58(b)(i). If that increase is not offset by an equal decrease in the present value of economic benefits that qualify for recognition under paragraph 58(b)(ii), there will be an increase in the net total specified by paragraph 58(b) and, hence, a recognised gain. Paragraph 58A prohibits the recognition of a gain in these circumstances. For examples of the application of this paragraph, see Appendix D.

59 An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recognised. An entity recognises an asset in such cases because:

(a) the entity controls a resource, which is the ability to use the surplus to generate future benefits;

(b) that control is a result of past events (contributions paid by the entity and service rendered by the employee); and

(c) future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.

60 The limit in paragraph 58(b) does not override the delayed recognition of certain past service cost (see paragraph 96), other than as specified in paragraph 58A. Paragraph 120A(f)(iii) requires an entity to disclose any amount not recognised as an asset because of the limit in paragraph 58(b).

Profit or loss

61 An entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) **current service cost (see paragraphs 63–91);**

(b) **interest cost (see paragraph 82);**

(c) **the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement rights (see paragraph 104A);**

(d) **[Refer to Appendix 1]**

* A surplus is an excess of the fair value of the plan assets over the present value of the defined benefit obligation.

(e) **past service cost (see paragraph 96);**

(f) **the effect of any curtailments or settlements (see paragraphs 109 and 110); and**

(g) [Refer to Appendix 1]

62 Other Standards require the inclusion of certain employee benefit costs within the cost of assets such as inventories or property, plant and equipment (see Ind AS 2 and Ind AS 16). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 61.

Recognition and measurement: present value of defined benefit obligations and current service cost

63 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method (see paragraphs 64–66);

(b) attribute benefit to periods of service (see paragraphs 67–71); and

(c) make actuarial assumptions (see paragraphs 72–91).

Actuarial valuation method

64 An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

65 The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 67–71) and measures each unit separately to build up the final obligation (see paragraphs 72–91).

Example illustrating paragraph 65
A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is Rs 10,000 and is

assumed to increase at 7% (compound) each year. The discount rate used is 10% per year. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

(Amount in Rs.)

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– prior years	*0*	*13 1*	*26 2*	*39 3*	*52 4*
– current year (1% of final salary)	*13 1*	*13 1*	*13 1*	*13 1*	*13 1*
– current and prior years	*13 1*	*26 2*	*39 3*	*52 4*	*65 5*
Opening obligation	*–*	89	19 6	*32 4*	*47 6*
Interest at 10%	*–*	9	*20*	*33*	*48*
Current service cost	*89*	98	*10 8*	*11 9*	*13 1*
Closing obligation	*89*	19 6	*32 4*	*47 6*	*65 5*

Note:

1. *The opening obligation is the present value of benefit attributed to prior years.*

2. *The current service cost is the present value of benefit attributed to the current year.*

3. *The closing obligation is the present value of benefit attributed to current and prior years.*

66 An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months after the reporting period.

Attributing benefit to periods of service

67 In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

(b) 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.

68 The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples illustrating paragraph 68

1. A defined benefit plan provides a lump-sum benefit of Rs 100 payable on retirement for each year of service.

   A benefit of Rs 100 is attributed to each year. The current service cost is the present value of Rs 100. The present value of the defined benefit obligation is the present value of Rs100, multiplied by the number of years of service up to the end of the reporting period.

   If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

   Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% 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 0.2% 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.

69 Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although certain post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples illustrating paragraph 69

1. A plan pays a benefit of Rs100 for each year of service. The benefits vest after ten years of service.

   A benefit of Rs 100 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.

2. A plan pays a benefit of Rs 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

   No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of Rs 100 is attributed to each subsequent year.

70 The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples illustrating paragraph 70

1 A plan pays a lump-sum benefit of Rs 1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

A benefit of Rs 100 (Rs 1,000 divided by ten) is attributed to each of the first ten 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. No benefit is attributed to subsequent years.

2 A plan pays a lump-sum retirement benefit of Rs 2,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of Rs 100 (Rs 2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of Rs 100 (Rs 2,000 divided by 20) to each of the first twenty years.

For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of Rs 200 (Rs 2,000 divided by 10) to each of the first ten years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

3 A post-employment medical plan reimburses 40% 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.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by ten) to each of the first ten years and 1% (10% divided by ten) to each of the second ten years. 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. For employees expected to leave within ten years, no benefit is attributed.

4 A post-employment medical plan reimburses 10% 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.

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 under paragraph 68. 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 1% 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.

5 An entity 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. As per the law, the amount payable shall not exceed Rs.1,000,000.

The amount of gratuity attributed to each year of service will be calculated as follows:

Number of employees not likely to fulfil 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 Rs.1,000,000, 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 Rs. 1,000,000 over the expected period of service of 10 years, and the amount of the statutory threshold of Rs. 1,000,000 is reached at the end of 8 years. Rs. 1,25,000 (Rs. 1,000,000 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.

71 Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph 67(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example illustrating paragraph 71

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% 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.

Actuarial assumptions

72 **Actuarial assumptions shall be unbiased and mutually compatible.**

73 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) mortality, both during and after employment;

(ii) rates of employee turnover, disability and early retirement;

(iii) the proportion of plan members with dependants who will be eligible for benefits; and

(iv) claim rates under medical plans; and

(b) financial assumptions, dealing with items such as:

(i) the discount rate (see paragraphs 78–82);

(ii) future salary and benefit levels (see paragraphs 83–87);

(iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 88–91); and

(iv) the expected rate of return on plan assets (see paragraphs 105–107).

74 Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

75 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

76 An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see Ind AS 29 *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

77 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

Actuarial assumptions: discount rate

78 **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on government bonds. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

79 One actuarial assumption which has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

80 The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

81 In some cases, there may be no government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the government bonds.

82 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. The present value of the obligation will differ from the liability recognised in the balance sheet because the liability is recognised after deducting the fair value of any plan assets and because some past service cost is not recognised immediately. [Appendix B illustrates the computation of interest cost, among other things.]

Actuarial assumptions: salaries, benefits and medical costs

83 **Post-employment benefit obligations shall be measured on a basis that reflects:**

(a) estimated future salary increases;

(b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period; and

(c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

(ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

84 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

85 If the formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:

(a) the entity has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; or

(b) actuarial gains have already been recognised in the financial statements and the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 98(c)).

86 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

(a) past service cost, to the extent that they change benefits for service before the change; and

(b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

87 Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

88 Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

89 Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers or

other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

90 The level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

91 Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the end of the reporting period (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers (see paragraphs 83(c) and 87).

Actuarial gains and losses

92 In measuring its defined benefit liability in accordance with paragraph 54, an entity shall recognise immediately in other comprehensive income all of its actuarial gains and losses.

93 [Refer to Appendix 1]

93A [Refer to Appendix 1]

93B Actuarial gains and losses recognised in other comprehensive income shall be presented in the statement of profit and loss.

93C An entity shall also recognise any adjustments arising from the limit in paragraph 58(b) in other comprehensive income.

93D Actuarial gains and losses and adjustments arising from the limit in paragraph 58(b) that have been recognised in other comprehensive income shall be recognised immediately in retained earnings. They shall not be reclassified to profit or loss in a subsequent period.

94 Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(c) the effect of changes in the discount rate; and

(d) differences between the actual return on plan assets and the expected return on plan assets (see paragraphs 105–107).

95 [Refer to Appendix 1]

Past service cost

96 In measuring its defined benefit liability under paragraph 54, an entity shall, subject to paragraph 58A, recognise past service cost 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 entity shall recognise past service cost immediately.

97 Past service cost arises when an entity introduces a defined benefit plan that attributes benefits to past service or changes the benefits payable for past service under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, the entity recognises past service cost over that period, regardless of the fact that the cost refers to employee service in previous periods. The entity measures past service cost as the change in the liability resulting from the amendment (see paragraph 64). Negative past service cost arises when an entity changes the benefits attributable to past service so that the present value of the defined benefit obligation decreases.

Example illustrating paragraph 97
An entity operates a pension plan that provides a pension of 2% of final salary for each year of service. The benefits become vested after five years of service. On 1 January 20X5 the entity improves the pension to 2.5% of final salary for each year of service starting from 1 January 20X1. At the date of the improvement, the present value of the additional benefits for service from 1 January 20X1 to 1 January 20X5 is as follows: *(Amount in Rs.)*

Employees with more than five years' service at 1/1/X5	150
Employees with less than five years' service at 1/1/X5 (average period until vesting: three years)	120
	270

The entity recognises Rs 150 immediately because those benefits are already vested. The entity recognises Rs 120 on a straight-line basis over three years from 1 January 20X5.

98 Past service cost excludes:

(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past service cost, see paragraph 85(b));

(d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered); and

(e) the effect of plan amendments that reduce benefits for future service (a curtailment).

99 An entity establishes the amortisation schedule for past service cost when the benefits are introduced or changed. It would be impracticable to maintain the detailed records needed to identify and implement subsequent changes in that amortisation schedule. Moreover, the effect is likely to be material only where there is a curtailment or settlement. Therefore, an entity amends the amortisation schedule for past service cost only if there is a curtailment or settlement.

100 Where an entity reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost over the average period until the reduced portion of the benefits becomes vested.

101 Where an entity reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

Recognition and measurement: plan assets

Fair value of plan assets

102 The fair value of any plan assets is deducted in determining the amount recognised in the balance sheet under paragraph 54. 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 that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).

103 Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

104 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, as described in paragraph 54 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

104A When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of profit and loss, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

104B Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 7, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 104A does not apply (see paragraphs 39–42 and 104).

104C When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 104A deals with such cases: the entity

recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph 54; in all other respects, the entity treats that asset in the same way as plan assets. Paragraph 120A(f)(iv) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

Example illustrating paragraphs 104A–104C

	(Amount in Rs.)
Present value of obligation	1,258
Liability recognised in balance sheet	1,258
Rights under insurance policies that exactly match the amount and timing of some of the benefits payable under the plan. Those benefits have a present value of Rs 1,092.	1,092

104D If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation, as described in paragraph 54 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on plan assets

105 The expected return on plan assets is one component of the expense recognised in profit or loss. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss.

106 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 expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

Example illustrating paragraph 106

At 1 January 20X1, the fair value of plan assets was Rs 10,000. On 30 June 20X1, the plan paid benefits of Rs 1,900 and received contributions of Rs 4,900. At 31 December 20X1, the fair value of plan assets was Rs 15,000 and the present value of the defined benefit obligation was Rs 14,792. Actuarial losses on the obligation for 20X1 were Rs 60.

At 1 January 20X1, the reporting entity made the following estimates, based on market prices at that date:

	%
Interest and dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Administration costs	(1.00)
Expected rate of return	10.25
For 20X1, the expected and actual return on plan assets are as follows:	*(Amount in Rs.)*
Return on Rs 10,000 held for 12 months at 10.25%	*1,025*
Return on Rs 3,000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)	*150*
Expected return on plan assets for 20X1	*1,175*
Fair value of plan assets at 31 December 20X1	*15,000*
Less fair value of plan assets at 1 January 20X1	*(10,000)*
Less contributions received	*(4,900)*
Add benefits paid	*1,900*
Actual return on plan assets	*2,000*

The difference between the expected return on plan assets (Rs 1,175) and the actual return on plan assets (Rs 2,000) is an actuarial gain of Rs 825. Therefore, the net actuarial gains of Rs 765 (825-60 (actuarial loss on the obligation)) would be recognised in other comprehensive income.

The expected return on plan assets for 20X2 will be based on market expectations at 1/1/X2 for returns over the entire life of the obligation.

107 In determining the expected and actual return on plan assets, an entity deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Business combinations

108 In a business combination, an entity recognises assets and liabilities arising from post-employment benefits at the present value of the obligation less the fair value of any plan assets (see Ind AS 103) *Business Combinations*). The present value of the obligation includes all of the following, even if the acquiree had not yet recognised them at the acquisition date:

(a) actuarial gains and losses that arose before the acquisition date;

(b) past service cost that arose from benefit changes, or the introduction of a plan, before the acquisition date; and

(c) [Refer to Appendix 1]

Curtailments and settlements

109 An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall 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, under paragraph 96 had not previously been recognised.**

110 Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

111 A curtailment occurs when an entity either:

(a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or

(b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for a related restructuring.

111A When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

112 A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

113 In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 39) to pay further amounts if the insurer does not pay the employee benefits specified in the

insurance policy. Paragraphs 104A–104D deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

114 A settlement occurs together with a curtailment if a plan is terminated such that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a curtailment or settlement if the plan is replaced by a new plan that offers benefits that are, in substance, identical.

115 Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecognised past service cost . The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances.

Example illustrating paragraph 115

An entity discontinues an operating segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the entity has a defined benefit obligation with a net present value of Rs 1,000, plan assets with a fair value of Rs 820 and unrecognised past service cost of Rs 50. The curtailment reduces the net present value of the obligation by Rs 100 to Rs 900.

Of the previously unrecognised past service cost, 10% (100/1,000) relates to the part of the obligation that was eliminated through the curtailment. Therefore, the effect of the curtailment is as follows:

			(Amount in Rs.)
	Before curtailment	*Curtailment gain*	*After curtailment*
Net present value of obligation	*1,000*	*(100)*	*900*
Fair value of plan assets	*(820)*	*–*	*(820)*
	180	*(100)*	*80*
Unrecognised past service cost	*(50)*	*5*	*(45)*
Net liability recognised in balance sheet	*130*	*(95)*	35

Presentation

Offset

116 An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:

(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and

(b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

117 The offsetting criteria are similar to those established for financial instruments in Ind AS 32 *Financial Instruments: Presentation.*

Current/non-current distinction

118 Some entities are required to distinguish current assets and liabilities from non-current assets and liabilities. This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

Financial components of post-employment benefit costs

119 This Standard does not specify whether an entity should present current service cost, interest cost and the expected return on plan assets as components of a single item of income or expense in the statement of profit and loss.

Disclosure

120 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

120A An entity shall disclose the following information about defined benefit plans:

(a) the entity's accounting policy for recognising actuarial gains and losses.

(b) a general description of the type of plan.

(c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(i) current service cost,

(ii) interest cost,

(iii) contributions by plan participants,

(iv) actuarial gains and losses,

(v) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,

(vi) benefits paid,

(vii) past service cost,

(viii) business combinations,

(ix) curtailments and

(x) settlements.

(d) 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.

(e) 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 in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each of the following:

(i) expected return on plan assets,

(ii) actuarial gains and losses,

(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,

(iv) contributions by the employer,

(v) contributions by plan participants,

(vi) benefits paid,

(vii) business combinations and

(viii) settlements.

(f) 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, showing at least:

(i) [Refer to Appendix 1]

(ii) the past service cost not recognised in the balance sheet(see paragraph 96);

(iii) any amount not recognised as an asset, because of the limit in paragraph 58(b);

(iv) the fair value at the end of the reporting period of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and

(v) the other amounts recognised in the balance sheet.

(g) the total expense recognised in profit or loss for each of the following, and the line item(s) in which they are included:

(i) current service cost;

(ii) interest cost;

(iii) expected return on plan assets;

(iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 104A;

(v) [Refer to Appendix 1]

(vi) past service cost;

(vii) the effect of any curtailment or settlement; and

(viii) [Refer to Appendix 1]

(h) the total amount recognised in other comprehensive income for each of the following:

(i) actuarial gains and losses; and

(ii) the effect of the limit in paragraph 58(b).

(i) the cumulative amount of actuarial gains and losses recognised in other comprehensive income.

(j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.

(k) the amounts included in the fair value of plan assets for:

(i) each category of the entity's own financial instruments; and

(ii) any property occupied by, or other assets used by, the entity.

(l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.

(m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A.

(n) the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:

(i) the discount rates;

(ii) the expected rates of return on any plan assets for the periods presented in the financial statements;

(iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;

(iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);

(v) medical cost trend rates; and

(vi) any other material actuarial assumptions used.

An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

(o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and

(ii) the accumulated post-employment benefit obligation for medical costs.

For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment,

the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

(p) the amounts for the current annual period and previous four annual periods of:

(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and

(ii) the experience adjustments arising on:

(a) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the end of the reporting period and

(a) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the end of the reporting period.

(q) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting period.

121 Paragraph 120A(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. The description of the plan shall include informal practices that give rise to constructive obligations included in the measurement of the defined benefit obligation in accordance with paragraph 52. Further detail is not required.

122 When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:

(a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or

(b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

123 Paragraph 30 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.

124 Where required by Ind AS 24 an entity discloses information about:

(a) related party transactions with post-employment benefit plans; and

(b) post-employment benefits for key management personnel.

125 Where required by Ind AS 37 an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other long-term employee benefits

126 Other long-term employee benefits include, for example:

(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 twelve months or more after the end of the period in which the employees render the related service; and

(e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

127 The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Furthermore, the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. For these reasons, this Standard requires a simplified method of accounting for other long-term employee benefits. This method differs from the accounting required for post-employment benefits as follows:

(a) [Refer to Appendix 1];

(b) all past service cost is recognised immediately .

Recognition and measurement

128 The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:

(a) the present value of the defined benefit obligation at the end of the reporting period (see paragraph 64);

(b) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104).

In measuring the liability, an entity shall apply paragraphs 49–91, excluding paragraphs 54 and 61. An entity shall apply paragraph 104A in recognising and measuring any reimbursement right.

129 For other long-term employee benefits, an entity shall recognise the net total of the following amounts as expense or income, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(a) **current service cost (see paragraphs 63–91);**

(b) **interest cost (see paragraph 82);**

(c) **the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement right recognised as an asset (see paragraph 104A);**

(d) **[Refer to Appendix 1]**

(e) **past service cost, which shall all be recognised immediately; and**

(f) **the effect of any curtailments or settlements (see paragraphs 109 and 110).**

129A In measuring its liability for other long-term employee benefits in accordance with paragraph 128, an entity shall recognise in other comprehensive income all of the actuarial gains and losses and any adjustments arising from the limit in paragraph 58(b) and apply paragraphs 93B, 93C and 93D.

130 One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

Disclosure

131 Although this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with Ind AS 1. When required by Ind AS 24, an entity discloses information about other long-term employee benefits for key management personnel.

Termination benefits

132 This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

133 An entity shall recognise termination benefits as a liability and an expense when, and only when, the entity is demonstrably committed to either:

(a) terminate the employment of an employee or group of employees before the normal retirement date; or

(b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

134 An entity is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:

(a) the location, function, and approximate number of employees whose services are to be terminated;

(b) the termination benefits for each job classification or function; and

(c) the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.

135 An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

(a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and

(b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

136 Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries as

termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination is a termination benefit.

137 Termination benefits do not provide an entity with future economic benefits and are recognised as an expense immediately.

138 Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 109).

Measurement

139 Where termination benefits fall due more than 12 months after the reporting period, they shall be discounted using the discount rate specified in paragraph 78.

140 In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Disclosure

141 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by Ind AS 37 an entity discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.

142 As required by Ind AS 1, an entity discloses the nature and amount of an expense if it is material. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.

143 Where required by Ind AS 24 an entity discloses information about termination benefits for key management personnel.

APPENDIX A

This Appendix, except the portion relating to illustrative examples, is an integral part of the Standard.

Ind AS 19 —The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Background

1 Paragraph 58 of Ind AS 19 limits the measurement of a defined benefit asset to 'the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus unrecognised past service cost. Questions have arisen about when refunds or reductions in future contributions should be regarded as available, particularly when a minimum funding requirement exists.

2 Minimum funding requirements exist in many countries to improve the security of the post-employment benefit promise made to members of an employee benefit plan. Such requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

3 Further, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will

become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

3A [Refer to Appendix 1]

Scope

4 This Appendix applies to all post-employment defined benefits and other long-term employee defined benefits.

5 For the purpose of this Appendix, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

Issues

6 The issues addressed in this Appendix are:

(a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of Ind AS 19.

(b) how a minimum funding requirement might affect the availability of reductions in future contributions.

(c) when a minimum funding requirement might give rise to a liability.

Principles

Availability of a refund or reduction in future contributions

7 An entity shall determine the availability of a refund or a reduction in future contributions in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.

8 An economic benefit, in the form of a refund or a reduction in future contributions, is available if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled. In particular, such an economic benefit may be available even if it is not realisable immediately at the end of the reporting period.

9 The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

10 In accordance with Ind AS 1 the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the balance sheet. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

The economic benefit available as a refund

The right to a refund

11 A refund is available to an entity only if the entity has an unconditional right to a refund:

(a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (eg in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or

(b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or

(c) assuming the full settlement of the plan liabilities in a single event (ie as a plan wind-up).

An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.

12 If the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset.

Measurement of the economic benefit

13 An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

14 In measuring the amount of a refund available when the plan is wound up (paragraph 11(c)), an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

15 If the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount, an entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date.

The economic benefit available as a contribution reduction

16 If there is no minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity. The future service cost to the entity excludes amounts that will be borne by employees.

17 An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by Ind AS 19. Therefore, an entity shall assume no change to the benefits to be provided by a plan in the future until the plan is amended and shall assume a stable workforce in the future unless the entity is demonstrably committed at the end of the reporting period to make a reduction in the number of employees covered by the plan. In the latter case, the assumption about the future workforce shall include the reduction.

The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions

18 An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover (a) any existing shortfall for past service on the minimum funding basis and (b) future service.

19 Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability in accordance with paragraphs 23–26.

20 If there is a minimum funding requirement for contributions relating to the future service, the economic benefit available as a reduction in future contributions is the sum of:

(a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to do so); and

(b) the estimated future service cost in each period in accordance with paragraphs 16 and 17 less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

21 An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment described in paragraph 20(a). An entity shall use assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period as determined by Ind AS 19 . The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.

22 When an entity determines the amount described in paragraph 20(b), if the future minimum funding requirement contributions for future service exceed the future Ind AS 19 service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions. However, the amount described in paragraph 20(b) can never be less than zero.

When a minimum funding requirement may give rise to a liability

23 If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.

24 To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected to result from applying paragraph 58 of Ind AS 19 when the contributions are paid.

25 An entity shall apply paragraph 58A of Ind AS 19 before determining the liability in accordance with paragraph 24.

26 The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability shall be recognised immediately in other comprehensive income.

Illustrative examples

These examples accompany, but are not part of, Appendix A.

Example 1—Effect of the minimum funding requirement when there is an Ind AS 19 surplus and the minimum funding contributions payable are fully refundable to the entity

IE1 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under Ind AS 19) of 82 per cent in Plan A. Under the minimum funding requirements, the entity is required to increase the funding level to 95 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to contribute Rs 200 to Plan A immediately. The plan rules permit a full refund of any surplus to the entity at the end of the life of the plan. The year-end valuations for Plan A are set out below.

	(Amount in Rs.)
Market value of assets	1,200
Present value of defined benefit obligation under Ind AS 19	(1,100)
Surplus	100
Defined benefit asset (before consideration of the minimum funding requirement)[(a)]	100

(a) For simplicity, it is assumed that there is no unrecognised past service cost.

Application of requirements

IE2 Paragraph 24 of Appendix A requires the entity to recognise a liability to the extent that the contributions payable are not fully available. Payment of the contributions of Rs 200 will increase the Ind AS 19 surplus from Rs 100 to Rs 300. Under the rules of the plan this amount will be fully refundable to the entity with no associated costs. Therefore, no liability is recognised for the obligation to pay the contributions.

Example 2—Effect of a minimum funding requirement when there is an Ind AS 19 deficit and the minimum funding contributions payable would not be fully available

IE3 An entity has a funding level on the minimum funding requirement basis (which is measured on a different basis from that required under Ind AS 19) of 77 per cent in Plan B. Under the minimum funding requirements, the entity is required to increase the funding level to 100 per cent immediately. As a result, the entity has a statutory obligation at the end of the reporting period to pay additional contributions of Rs 300 to Plan B. The plan rules permit a maximum refund of 60 per cent of the Ind AS 19 surplus to the entity and the entity is not permitted to reduce its contributions below a specified level which happens to equal the Ind AS 19 service cost. The year-end valuations for Plan B are set out below.

(*Amount in Rs.*)

Market value of assets	1,000
Present value of defined benefit obligation under Ind AS 19	(1,100)
Deficit	(100)
Defined benefit (liability) (before consideration of the minimum funding requirement) [(a)]	(100)

(a) For simplicity, it is assumed that there is no unrecognised past service cost.

Application of requirements

IE4 The payment of Rs 300 would change the Ind AS 19 deficit of Rs 100 to a surplus of Rs 200. Of this Rs 200, 60 per cent (Rs 120) is refundable.

IE5 Therefore, of the contributions of Rs 300, Rs 100 eliminates the Ind AS 19 deficit and Rs 120 (60 per cent of Rs 200) is available as an economic benefit. The remaining Rs 80 (40 per cent of Rs 200) of the contributions paid is not available to the entity.

IE6 Paragraph 24 of Appendix A requires the entity to recognise a liability to the extent that the additional contributions payable are not available to it.

IE7 Therefore, the entity increases the defined benefit liability by Rs 80. As required by paragraph 26 of Appendix A, Rs 80 is recognised immediately in other comprehensive income and the entity recognises a net liability of Rs 180 in the balance sheet. No other liability is recognised in respect of the statutory obligation to pay contributions of Rs 300.

Summary

	(Amount in Rs.)
Market value of assets	1,000
Present value of defined benefit obligation under Ind AS 19	(1,100)
Deficit	(100)
Defined benefit liability (before consideration of the minimum funding requirement) [(a)]	(100)
Adjustment in respect of minimum funding requirement	(80)
Net liability recognised in the balance sheet	(180)

(a) For simplicity, it is assumed that there is no unrecognised past service cost.

IE8 When the contributions of Rs 300 are paid, the net asset recognised in the balance sheet will be Rs 120.

Example 3—Effect of a minimum funding requirement when the contributions payable would not be fully available and the effect on the economic benefit available as a future contribution reduction

IE9 An entity has a funding level on the minimum funding basis (which it measures on a different basis from that required by Ind AS 19) of 95 per cent in Plan C. The minimum funding requirements require the entity to pay contributions to increase the funding level to 100 per cent over the next three years. The contributions are required to make good the deficit on the minimum funding basis (shortfall) and to cover future service.

IE10 Plan C also has an Ind AS 19 surplus at the end of the reporting period of Rs 50, which cannot be refunded to the entity under any circumstances. There is no unrecognised past service cost.

IE11 The nominal amounts of contributions required to satisfy the minimum funding requirements in respect of the shortfall and the future service for the next three years are set out below.

(Amount in Rs.)

Year	Total contributions for minimum funding requirement	Contributions required to make good the shortfall	Contributions required to cover future service

1	135	120	15
2	125	112	13
3	115	104	11

Application of requirements

IE12 The entity's present obligation in respect of services already received includes the contributions required to make good the shortfall but does not include the contributions required to cover future service.

IE13 The present value of the entity's obligation, assuming a discount rate of 6 per cent per year, is approximately Rs 300, calculated as follows:

$[120/(1.06) + 112 /(1.06)^2 + 104/(1.06)^3]$.

IE14 When these contributions are paid into the plan, the present value of the Ind AS 19 surplus (ie the fair value of assets less the present value of the defined benefit obligation) would, other things being equal, increase from Rs 50 to Rs 350 (300 + 50).

IE15 However, the surplus is not refundable although an asset may be available as a future contribution reduction.

IE16 In accordance with paragraph 20 of Appendix A, the economic benefit available as a reduction in future contributions is the sum of

(a) any amount that reduces the future minimum funding requirement contributions for future service because the entity made a prepayment (ie paid the amount before being required to so); and

(b) the estimated future service cost in each period in accordance with paragraphs 16 and 17 less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in paragraph (a).

IE17 In this example there is no prepayment as described in paragraph 20(a). The amounts available as a reduction in future contributions when applying paragraph 20(b) are set out below.

(Amount in Rs.)

Year	Ind AS 19 service cost	Minimum contributions required to cover future service	Amount available as contribution reduction
1	13	15	(2)
2	13	13	0
3	13	11	2
4+	13	9	4

IE18 Assuming a discount rate of 6 per cent, the present value of the economic benefit available as a future contribution reduction is equal to:

$(2)/(1.06) + 0/(1.06)^2 + 2/(1.06)^3 + 4/(1.06)^4 + \ldots = 56.$

Thus in accordance with paragraph 58(b) of Ind AS 19, the present value of the economic benefit available from future contribution reductions is limited to Rs 56.

IE19 Paragraph 24 of Appendix A requires the entity to recognise a liability to the extent that the additional contributions payable will not be fully available. Therefore, the entity reduces the defined benefit asset by Rs 294 (50 + 300 – 56).

IE20 As required by paragraph 26 of Appendix A, the Rs 294 is recognised immediately in other comprehensive income and the entity recognises a net liability of Rs 244 in the balance sheet. No other liability is recognised in respect of the obligation to make contributions to fund the minimum funding shortfall.

Summary

	(Amount in Rs.)
Surplus	50
Defined benefit asset (before consideration of the minimum funding requirement)	50
Adjustment in respect of minimum funding requirement	(294)
Net liability recognised in the balance sheet[(a)]	(244)

(a) For simplicity, it is assumed that there is no unrecognised past service cost.

IE21 When the contributions of Rs 300 are paid into the plan, the net asset recognised in the balance sheet will become Rs 56 (300 – 244).

Example 4—Effect of a prepayment when a minimum funding requirement exceeds the expected future service charge

IE22 An entity is required to fund Plan D so that no deficit arises on the minimum funding basis. The entity is required to pay minimum funding requirement contributions to cover the service cost in each period determined on the minimum funding basis.

IE23 Plan D has an Ind AS 19 surplus of Rs 35 at the beginning of 20X1. There are no cumulative unrecognised past service costs. This example assumes that the discount rate and expected return on assets are 0 per cent, and that the plan cannot refund the surplus to the entity under any circumstances but can use the surplus for reductions of future contributions.

IE24 The minimum contributions required to cover future service are Rs 15 for each of the next five years. The expected Ind AS 19 service cost is Rs 10 in each year.

IE25 The entity makes a prepayment of Rs 30 at the beginning of 20X1 in respect of years 20X1 and 20X2, increasing its surplus at the beginning of 20X1 to Rs 65. That prepayment reduces the future contributions it expects to make in the following two years, as follows:

(Amount in Rs.)

Year	Ind AS 19 service cost	Minimum funding requirement contribution before prepayment	Minimum funding requirement contribution after prepayment
20X1	10	15	0
20X2	10	15	0
20X3	10	15	15
20X4	10	15	15
20X5	10	15	15
Total	50	75	45

Application of requirements

IE26 In accordance with paragraphs 20 and 22 of Appendix A, at the beginning of 20X1, the economic benefit available as a reduction in future contributions is the sum of:

(a) Rs 30, being the prepayment of the minimum funding requirement contributions; and

(b) nil. The estimated minimum funding requirement contributions required for future service would be Rs 75 if there was no prepayment. Those contributions exceed the estimated future service cost (Rs 50); therefore the entity cannot use any part of the surplus of Rs 35 noted in paragraph IE23 (see paragraph 22).

IE27 Assuming a discount rate of 0 per cent, the present value of the economic benefit available as a reduction in future contributions is equal to Rs 30. Thus in accordance with paragraph 58 of Ind AS 19 the entity recognises an asset of Rs 30 (because this is lower than the Ind AS 19 surplus of Rs 65).

Appendix B
Illustrative example

The appendix accompanies, but is not part of, Ind AS 19.

Extracts from statements of profit and loss and balance sheets are provided to show the effects of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Standards.

Background information

The following information is given about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to occur at the year-end. The present value of the obligation and the fair value of the plan assets were both Rs 1,000 at 1 January 20X1. Net cumulative actuarial gain recognised in other comprehensive income as of 1 January 20X1 was Rs 100.

	(Amount in Rs.)		
	20X1	*20X2*	*20X3*
Discount rate at start of year	10.0%	9.0%	8.0%
Expected rate of return on plan assets at start of year	12.0%	11.1%	10.3%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
Present value of obligation at 31 December	1,141	1,197	1,295
Fair value of plan assets at 31 December	1,092	1,109	1,093
Expected average remaining working lives of employees (years)	10	10	10

In 20X2, the plan was amended to provide additional benefits with effect from 1 January 20X2. The present value as at 1 January 20X2 of additional benefits for employee service before 1 January 20X2 was Rs 50 for vested benefits and Rs 30 for non-vested benefits. As at 1 January 20X2, the entity estimated that the average period until the non-vested benefits would become vested was three years; the past service cost arising from additional non-vested benefits is therefore recognised on a

straight-line basis over three years. The past service cost arising from additional vested benefits is recognised immediately (paragraph 96 of the Standard).

Changes in the present value of the obligation and in the fair value of the plan assets

The first step is to summarise the changes in the present value of the obligation and in the fair value of the plan assets and use this to determine the amount of the actuarial gains or losses for the period. These are as follows:

			(Amount in Rs.)
	20X1	*20X2*	*20X3*
Present value of obligation, 1 January	1,000	1,141	1,197
Interest cost	100	103	96
Current service cost	130	140	150
Past service cost—non-vested benefits	–	30	–
Past service cost—vested benefits	–	50	–
Benefits paid	(150)	(180)	(190)
Actuarial (gain) loss on obligation (balancing figure)	61	(87)	42
Present value of obligation, 31 December	1,141	1,197	1,295
Fair value of plan assets, 1 January	1,000	1,092	1,109
Expected return on plan assets	120	121	114
Contributions	90	100	110
Benefits paid	(150)	(180)	(190)
Actuarial gain (loss) on plan assets (balancing figure)	32	(24)	(50)
Fair value of plan assets, 31 December	1,092	1,109	1,093
Net actuarial gains (losses) to be recognised immediately in other comprehensive income	(29)	63	(92)

Amounts recognised in the balance sheet , profit or loss, other comprehensive income and related analyses

The final step is to determine the amounts to be recognised in the balance sheet and profit or loss, and the related analyses to be disclosed in accordance with paragraph 120A(f), (g), (h), (i) and (m) of the Standard (the analyses required to be disclosed in accordance with paragraph 120A(c) and (e) are given in the section of this Appendix 'Changes in the present value of the obligation and in the fair value of the plan assets'). These are as follows.

			(Amount in Rs.)
	20X1	*20X2*	*20X3*
Present value of the obligation	1,141	1,197	1,295
Fair value of plan assets	(1,092)	(1,109)	(1,093)
	49	88	202
Unrecognised past service cost—non-vested benefits	–	(20)	(10)
Liability recognised in balance sheet	**49**	**68**	**192**
Current service cost	130	140	150
Interest cost	100	103	96
Expected return on plan assets	(120)	(121)	(114)
Past service cost—non-vested benefits	–	10	10
Past service cost—vested benefits	–	50	–
Expense recognised in profit or loss	**110**	**182**	**142**
Net actuarial (gain) loss recognised in other comprehensive income in year	**29**	**(63)**	**92**
Cumulative actuarial (gain)loss recognised in other comprehensive income	**(71)**	**(134)**	**(42)**
Actual return on plan assets			
Expected return on plan assets	120	121	114
Actuarial gain (loss) on plan assets	32	(24)	(50)
Actual return on plan assets	152	97	64

Note: see example illustrating paragraphs 104A–104C for presentation of reimbursements.

Appendix C
Illustrative disclosures

This appendix accompanies, but is not part of, Ind AS 19. Extracts from notes show how the required disclosures may be aggregated in the case of a large multi-national group that provides a variety of employee benefits. These extracts do not necessarily conform with all the disclosure and presentation requirements of Ind AS 19 and other Standards. In particular, they do not illustrate the disclosure of:

accounting policies for employee benefits (see Ind AS 1 Presentation of Financial Statements*). Paragraph 120A(a) of the Standard requires this disclosure to include the entity's accounting policy for recognising actuarial gains and losses.*

a general description of the type of plan (paragraph 120A(b)).

cumulative amounts recognised in other comprehensive income (paragraph 120A (i))

a narrative description of the basis used to determine the overall expected rate of return on assets (paragraph 120A(l)).

employee benefits granted to directors and key management personnel (see Ind AS 24 Related Party Disclosures*).*

share-based employee benefits (see Ind AS 102 Share-based Payment).

Employee benefit obligations

The amounts (in Rs.) recognised in the balance sheet are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X2	*20X1*	*20X2*	*20X1*
Present value of funded obligations	20,300	17,400	–	–
Fair value of plan assets	(18,420)	(17,280)	–	–
	1,880	120	–	–
Present value of unfunded obligations	2,000	1,000	7,337	6,405
Unrecognised past service cost	(450)	(650)	–	–

Net liability	3,430	470	7,337	6,405
Amounts in the balance sheet:				
liabilities	3,430	560	7,337	6,405
assets	–	(90)	–	–
Net liability	3,430	470	7,337	6,405

The pension plan assets include ordinary shares[1] issued by [name of reporting entity] with a fair value of Rs 317 (20X1: 281). Plan assets also include property occupied by [name of reporting entity] with a fair value of Rs 200 (20X1: 185).

The amounts (in Rs.) recognised in profit or loss and other comprehensive income are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X2	*20X1*	*20X2*	*20X1*
Current service cost	850	750	479	411
Interest on obligation	950	1,000	803	705
Expected return on plan assets	(900)	(650)		
Past service cost	200	200		
Losses (gains) on curtailments and settlements	175	(390)		
Total, included in 'employee benefits expense'	1,275	910	1,282	1,116
Net actuarial losses (gains) recognised in other comprehensive income in year	2,650	(650)	250	400
Actual return on plan assets	600	2,250	–	–

Changes in the present value of the defined benefit obligation are as follows:

(Amount in Rs.)

	Defined benefit pension plans		Post-employment medical benefits	
	20X2	*20X1*	*20X2*	*20X1*
Opening defined benefit obligation	18,400	11,600	6,405	5,439
Service cost	850	750	479	411

[1] In Indian context, the term 'ordinary shares' is equivalent to 'equity shares'.

Interest cost	950	1,000	803	705
Actuarial losses (gains)	2,350	950	250	400
Losses (gains) on curtailments	(500)	–		
Liabilities extinguished on settlements	–	(350)		
Liabilities assumed in a business combination	–	5,000		
Exchange differences on foreign plans	900	(150)		
Benefits paid	(650)	(400)	(600)	(550)
Closing defined benefit obligation	22,300	18,400	7,337	6,405

Changes in the fair value of plan assets are as follows:

	(Amount in Rs.)	
	Defined benefit pension plans	
	20X2	*20X1*
Opening fair value of plan assets	17,280	9,200
Expected return	900	650
Actuarial gains and (losses)	(300)	1,600
Assets distributed on settlements	(400)	–
Contributions by employer	700	350
Assets acquired in a business combination	–	6,000
Exchange differences on foreign plans	890	(120)
Benefits paid	(650)	(400)
	18,420	17,280

The group expects to contribute Rs 900 to its defined benefit pension plans in 20X3.

The major categories of plan assets as a percentage of total plan assets are as follows:	*20X2*	*20X1*
European equities	30%	35%
North American equities	16%	15%
European bonds	31%	28%
North American bonds	18%	17%
Property	5%	5%

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages):

		20X1
Discount rate at 31 December	5.0%	6.5%
Expected return on plan assets at 31 December	5.4%	7.0%
Future salary increases	5%	4%
Future pension increases	3%	2%
Proportion of employees opting for early retirement	30%	30%
Annual increase in healthcare costs	8%	8%
Future changes in maximum state healthcare benefits	3%	2%

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

(Amount in Rs.)

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	190	(150)
Effect on defined benefit obligation	1,000	(900)

Amounts for the current and previous four periods are as follows:

Defined benefit pension plans

(Amount in Rs.)

	20X2	*20X1*	*20X0*	*20W9*	*20W8*
Defined benefit obligation	(22,300)	(18,400)	(11,600)	(10,582)	(9,144)
Plan assets	18,420	17,280	9,200	8,502	10,000
Surplus/(deficit)	(3,880)	(1,120)	(2,400)	(2,080)	856
Experience adjustments on plan liabilities	(1,111)	(768)	(69)	543	(642)
Experience adjustments on plan assets	(300)	1,600	(1,078)	(2,890)	2,777

Post-employment medical benefits

(Amount in Rs.)

	20X2	*20X1*	*20X0*	*20W9*	*20W8*

Defined benefit obligation	7,337	6,405	5,439	4,923	4,221
Experience adjustments on plan liabilities	(232)	829	490	(174)	(103)

The group also participates in an industry-wide defined benefit plan that provides pensions linked to final salaries and is funded on a pay-as-you-go basis. It is not practicable to determine the present value of the group's obligation or the related current service cost as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting entity]'s financial statements. [describe basis] On that basis, the plan's financial statements to 30 June 20X0 show an unfunded liability of Rs 27,525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75,000 members, of whom approximately 5,000 are current or former employees of [name of reporting entity] or their dependants. The expense recognised in profit or loss, which is equal to contributions due for the year, and is not included in the above amounts, was Rs 230 (20X1: 215). The group's future contributions may be increased substantially if other entities withdraw from the plan.

Appendix D
Illustration of the application of paragraph 58A

The appendix accompanies, but is not part of, Ind AS 19.Throughout this Appendix, the term 'past service cost' means non-vested past service cost to be amortised in accordance with paragraph 96 of Ind AS 19.

The issue

Paragraph 58 of the Standard imposes a ceiling on the defined benefit asset that can be recognised.

58 The amount determined under paragraph 54 may be negative (an asset). An entity shall measure the resulting asset at the lower of:

(a) **the amount determined under paragraph 54** [ie the surplus/deficit in the plan plus (minus) any unrecognised past service cost]**; and**

(b) the total of:

(i) any cumulative unrecognised past service cost (see paragraph 96); and

(ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 78.

Without paragraph 58A(see below), paragraph 58(b)(i) has the following consequence: sometimes deferring the recognition of a past service cost in determining the amount specified by paragraph 54 leads to a gain being recognised in other comprehensive income .

The following example illustrates the effect of applying paragraph 58 without paragraph 58A.

Example 1

(Amount in Rs.)

	A	B	C	D=A+C	E=B+C	F= lower of D and E	G
Year	Surplus in plan	Economic benefits available (paragraph 58(b) (ii))	Past service cost unrecognised under paragraph 54	Paragraph 54	Paragraph 58(b)	Asset ceiling, ie recognised asset	Gain recognised in year 2
1	100	0	0	100	0	0	–
2	70	0	30	100	30	30	30

At the end of year 1, there is a surplus of Rs 100 in the plan (column A in the table above), but no economic benefits are available to the entity either from refunds or reductions in future contributions* (column B). There is no unrecognised past service cost under paragraph 54 (column C). So, if there were no asset ceiling, an asset of Rs 100 would be recognised, being the amount specified by paragraph 54 (column D). The asset ceiling in paragraph 58 restricts the asset to nil (column F).

In year 2 there is a past service cost in the plan of Rs 30 that reduces the surplus from Rs 100 to Rs 70 (column A) the recognition of which is deferred under paragraph 54 (column C). So, if there were no asset ceiling, an asset of Rs 100 (column D) would be recognised. The asset ceiling without paragraph 58A would be Rs 30 (column E). An asset of Rs 30 would be recognised (column F), giving rise to a gain in other comprehensive income (column G) even though all that has happened is that a surplus from which the entity cannot benefit has decreased.

Paragraph 58A

Paragraph 58A prohibits the recognition of gains that arise solely from past service cost.

58A The application of paragraph 58 shall not result in a gain being recognised solely as a result of a past service cost in the current period. The entity shall therefore recognise immediately under paragraph 54 the following, to the extent that it arises while the defined benefit asset is determined in accordance with paragraph 58(b)

(a) past service cost of the current period to the extent that it exceeds any reduction in the present value of the economic benefits specified in paragraph 58(b) (ii). If there is no change or an increase in the present value of the economic benefits, the entire past service cost of the current period shall be recognised immediately under paragraph 54.

(b) [Refer to Appendix 1]

* based on the current terms of the plan.

Examples

The following examples illustrate the result of applying paragraph 58A. For the sake of simplicity the periodic amortisation of unrecognised past service cost is ignored in the examples.

Example 1 continued – Adjustment when there is past service cost and no change in the economic benefits available

(Amount in Rs.)

	A	B	C	D=A+C	E=B+C	F= lower of D and E	G
Year	Surplus in plan	Economic benefits available (paragraph 58(b)(ii))	Past service cost unrecognised under paragraph 54	Paragraph 54	Paragraph 58(b)	Asset ceiling, ie recognised asset	Gain recognised in year 2
1	100	0	0	100	0	0	–
2	70	0	0	70	0	0	0

The facts are as in example 1 above. Applying paragraph 58A, there is no change in the economic benefits available to the entity* so the entire past service cost of Rs 30 is recognised immediately under paragraph 54(column D). The asset ceiling remains at nil (column F) and no gain is recognised.

In effect, the past service cost of Rs 30 is recognised immediately, but is offset by the reduction in the effect of the asset ceiling.

(Amount in Rs.)

	Balance sheet asset under paragraph 54 (column D above)	Effect of the asset ceiling	Asset ceiling (column F above)
Year 1	100	(100)	0
Year 2	70	(70)	0
Gain/(loss)	(30)	30	0

In the above example, there is no change in the present value of the economic benefits available to the entity. The application of paragraph 58A becomes more complex when there are changes in present value of the economic benefits available, as illustrated in the following examples.

* The term 'economic benefits available to the entity' is used to refer to those economic benefits that qualify for recognition under paragraph 58(b)(ii).

Example 2 – Adjustment when there is past service cost and a decrease in the economic benefits available

(Amount in Rs.)

	A	B	C	D=A+C	E=B+C	F= lower of D and E	G
Year	Surplus in plan	Economic benefits available (paragraph 58(b)(ii))	Past service cost unrecognised under paragraph 54	Paragraph 54	Paragraph 58(b)	Asset ceiling, ie recognised asset	Gain recognised in year 2
1	60	30	40	100	70	70	–
2	25	20	50	75	70	70	0

At the end of year 1, there is a surplus of Rs 60 in the plan (column A) and economic benefits available to the entity of Rs 30 (column B). There is an unrecognised past service cost of Rs 40 under paragraph 54* (column C). So, if there were no asset ceiling, an asset of Rs 100 would be recognised (column D). The asset ceiling restricts the asset to Rs 70 (column F).

In year 2, an unrecognised past service cost of 35 in the plan reduces the surplus from Rs 60 to Rs 25 (column A). The economic benefits available to the entity fall by Rs 10 from Rs 30 to Rs 20 (column B). Applying paragraph 58A, the unrecognised past service cost of Rs 35 is analysed as follows:

(Amount in Rs.)

Past service cost equal to the reduction in economic benefits	10
Past service cost that exceeds the reduction in economic benefits	25

In accordance with paragraph 58A, Rs 25 of the past service cost is recognised immediately under paragraph 54 (column D). The reduction in economic benefits of Rs 10 is included in the cumulative unrecognised past service cost that increases to Rs 50 (column C). The asset ceiling, therefore, also remains at Rs 70 (column E) and no gain is recognised.

* The application of paragraph 58A allows the recognition of some past service costs to be deferred under paragraph 54 and, hence, to be included in the calculation of the asset ceiling. For example, cumulative unrecognised past service cost that have built up while the amount specified by paragraph 58(b) is not lower than the amount specified by paragraph 54 will not be recognised immediately at the point that the amount specified by paragraph 58(b) becomes lower. Instead its recognition will continue to be deferred in line with paragraph 96. The cumulative unrecognised past service cost in this example is past service cost the recognition of which is deferred even though paragraph 58A applies.

In effect, a past service cost of Rs 25 is recognised immediately, but is offset by the reduction in the effect of the asset ceiling.

(Amount in Rs.)

	Balance sheet asset under paragraph 54 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	(30)	70
Year 2	75	(5)	70
Gain/(loss)	(25)	25	0

Example 3-[Refer to Appendix 1]

Example 4 – Adjustment in a period in which the asset ceiling ceases to have an effect

(Amount in Rs.)

	A	**B**	**C**	**D=A+C**	**E=B+C**	**F= lower of D and E**	**G**
Year	Surplus in plan	Economic benefits available (paragraph 58(b)(ii))	Past service cost unrecognised under paragraph 54	Paragraph 54	Paragraph 58(b)	Asset ceiling, ie recognised asset	Gain recognised in year 2
1	60	25	40	100	65	65	–
2	(50)	0	115	65	115	65	0

At the end of year 1 there is a surplus of Rs 60 in the plan (column A) and economic benefits are available to the entity of RS 25 (column B). There is an unrecognised past service cost of Rs 40 under paragraph 54 that arose before the asset ceiling had any effect (column C). So, if there were no asset ceiling, an asset of 100 would be recognised (column D). The asset ceiling restricts the asset to Rs 65 (column F).

In year 2, a past service cost of Rs 110 in the plan reduces the surplus from Rs 60 to a deficit of Rs 50 (column A). The economic benefits available to the entity decrease from Rs 25 to Rs 0 (column B). To apply paragraph 58A it is necessary to determine how much of the past service cost arises while the defined benefit asset is determined in accordance with paragraph 58(b). Once the surplus becomes a deficit, the amount determined by paragraph 54 is lower than the net total under paragraph 58(b). So, the past service cost that arises while the defined benefit asset is determined in accordance with paragraph 58(b) is the past service cost that reduces the surplus to nil, ie Rs 60. The past service cost is, therefore, analysed as follows:

(Amount in Rs.)

Past service cost that arises while the defined benefit asset is measured under paragraph 58(b):	
Past service cost that equals the reduction in economic benefits	25
Past service cost that exceeds the reduction in economic benefits	35
	60
Past service cost that arises while the defined benefit asset is measured under paragraph 54	50
Total past service cost	110

In accordance with paragraph 58A, Rs 35 of the past service cost is recognised immediately under paragraph 54 (column D); Rs 75 (25 + 50) of the past service cost is included in the cumulative unrecognised past service cost which increases to Rs 115 (column C). The amount determined under paragraph 54 becomes Rs 65 (column D) and under paragraph 58(b) becomes Rs 115 (column E). The recognised asset is the lower of the two, ie Rs 65 (column F), and no gain or loss is recognised (column G).

In effect, a past service cost of Rs 35 is recognised immediately, but is offset by the reduction in the effect of the asset ceiling.

(Amount in Rs.)

	Balance sheet asset under paragraph 54 (column D above)	**Effect of the asset ceiling**	**Asset ceiling (column F above)**
Year 1	100	(35)	65
Year 2	65	0	65
Gain/(loss)	(35)	35	0

Notes

1 In applying paragraph 58A in situations when there is an increase in the present value of the economic benefits available to the entity, it is important to remember that the present value of the economic benefits available cannot exceed the surplus in the plan.

2 In practice, benefit improvements often result in a past service cost and an increase in expected future contributions due to increased current service costs of future years. The increase in expected future contributions may increase the economic benefits available to the entity in the form of anticipated reductions in those future contributions. The prohibition against recognising a gain solely as a result of past service cost in the current period does not prevent the recognition of a gain because of an increase in economic benefits.

Appendix E
References to matters contained in other Accounting Standards

This Appendix is an integral part of Ind AS 19.

This appendix lists the appendices which are part of other Indian Accounting Standards and makes reference to Ind AS 19, *Employee Benefits*

1. Appendix A.*Consolidation- Special Purpose Entities* contained in Ind AS 27, *Consolidated and Separate Financial Statements.*

Appendix 1

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the differences, if any, between Indian Accounting Standard (Ind AS) 19 and the corresponding International Accounting Standard (IAS) 19, Employee Benefits.

Comparison with IAS 19, *Employee Benefits*

1. IAS 19 permits various options for treatment of actuarial gains and losses for post-employment defined benefit plans whereas Ind AS 19 requires recognition of the same in other comprehensive income, both for post-employment defined benefit plans and other long-term employment benefit plans. The actuarial gains recognised in other comprehensive income should be recognised immediately in retained earnings and should not be reclassified to profit or loss in a subsequent period. Changes consequent to the aforesaid have been made in the other paragraphs, including addition of a new paragraph 129A.. Further,the following paragraphs of IAS 19 which are with reference to the options for the treatment of actuarial gains or losses for post-employment options have been deleted in Ind AS 19. In order to maintain consistency with paragraph numbers of IAS 19, the paragraph numbers are retained in Ind AS 19:

(i) Paragraph 54(b)

(ii) Paragraph 58A (b)

(iii) Paragraph 61 (d)

(iv) Paragraph 61 (g)

(v) Paragraph 93

(vi) Paragraph 93A

(vii) Paragraph 95

(vii) Paragraph 108 (c)

(viii) Paragraph 120A (f) (i)

(ix) Paragraph 120A (g) (v)

(x) Paragraph 120A (g) (viii)

(xi) Paragraph 127 (a)

(xii) Paragraph 129(d)

(xiii) Paragraph 58A (b) in 'The Issue' contained in Appendix D

(xiv) Example 3 contained in Appendix D

2. The transitional provisions given in IAS 19 have not been given in Ind AS 19, since all transitional provisions related to Ind ASs, wherever considered appropriate have been included in Ind AS 101, First-time Adoption of Indian Accounting Standards corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards.

3. The Ind AS 19 unlike IAS 19 gives guidance that detailed actuarial valuation of defined benefit obligations may be made at intervals not exceeding three years.

4. According to Ind AS 19 the rate to be used to discount post-employment benefit obligation shall be determined by reference to the market yields on government bonds, whereas under IAS 19, the government bonds can be used only where there is no deep market of high quality corporate bonds.

5. Different terminology is used in this standard, e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'. The words 'approval of the financial statements for issue have been used instead of 'authorisation of the financial statements for issue ' in the context of financial statements considered for the purpose of events after the reporting period.

6 Paragraph number 35 appears as 'Deleted 'in IAS 19. In order to maintain consistency with paragraph numbers of IAS 19, the paragraph number is retained in Ind AS 19.

7 Paragraph 3A of Appendix A is deleted as this paragraph deals with reason for amending IFRIC 14, which is irrelevant for Appendix A to Ind AS 19.

8 To illustrate treatment of gratuity subject to ceiling under Indian Gratuity Rules , an example has been added in paragraph 70.

9 Example illustrating application of paragraph 60 in IAS 19 has been deleted in Ind AS 19 as it also dealt with the transitional provisions which are not given in this Standard.