# IND AS – 19

# EMPLOYEE BENEFITS

CA SANDESH AGGARWAL

# AGENDA

- OBJECTIVE
- APPLICABILITY
- SCOPE
- SHORT TERM EMPLOYEE BENEFITS
- POST EMPLOYMENT BENEFITS
- LONG TERM EMPLOYEE BENEFITS
- TERMINATION BENEFITS

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# OBJECTIVE

TO PRESCRIBE **ACCOUNTING & DISCLOSURE** FOR EMPLOYEE BENEFITS

Enterprise should recognise

**LIABILITY** for services rendered by employee

+

**EXPENSE** for consumption of benefits of services rendered by employee

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# APPLICABILITY

## Mandatory adoption

| For the accounting periods beginning on or after 1 April 2016 | For the accounting periods beginning on or after 1 April 2017 |
|---|---|
| • The following companies will have to adopt Ind AS for financial statements from the above mentioned date:<br>- Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India (listed companies) and having net worth of Rs. 500 crores or more.<br>- Unlisted companies having a net worth of Rs. 500 crores or more.<br>- Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above. | • The following companies will have to adopt Ind AS for financial statements from the above mentioned date:<br>- Listed companies having net worth of less than Rs. 500 crore.<br>- Unlisted companies having net worth of Rs. 250 crore or more but less than Rs. 500 crore.<br>- Holding, subsidiary, joint venture or associate companies of the listed and unlisted companies covered above. |
| • Comparative for these financial statements will be periods ending 31 March 2016 or thereafter. | • Comparative for these financial statements will be periods ending 31 March 2017 or thereafter. |

The roadmap will not be applicable to:

- Companies whose securities are listed or in the process of listing on SME exchanges.
- Companies not covered by the roadmap in the "Mandatory adoption" categories above.
- Insurance companies, banking companies and non-banking finance companies.

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# SCOPE

Self, dependent parents or children

Full time/ Part time/Permanent/ Temporary Employment

In cash or in kind

All Employee Benefits

<u>AS – 15</u>

Employee – Whole time directors

<u>IND AS – 19</u>

Employee -Directors

**Except** those matters which are covered under

**IND AS 102** – Share Based Payments

**IND AS 26** – Accounting & Reporting by Retirement Benefit Plans

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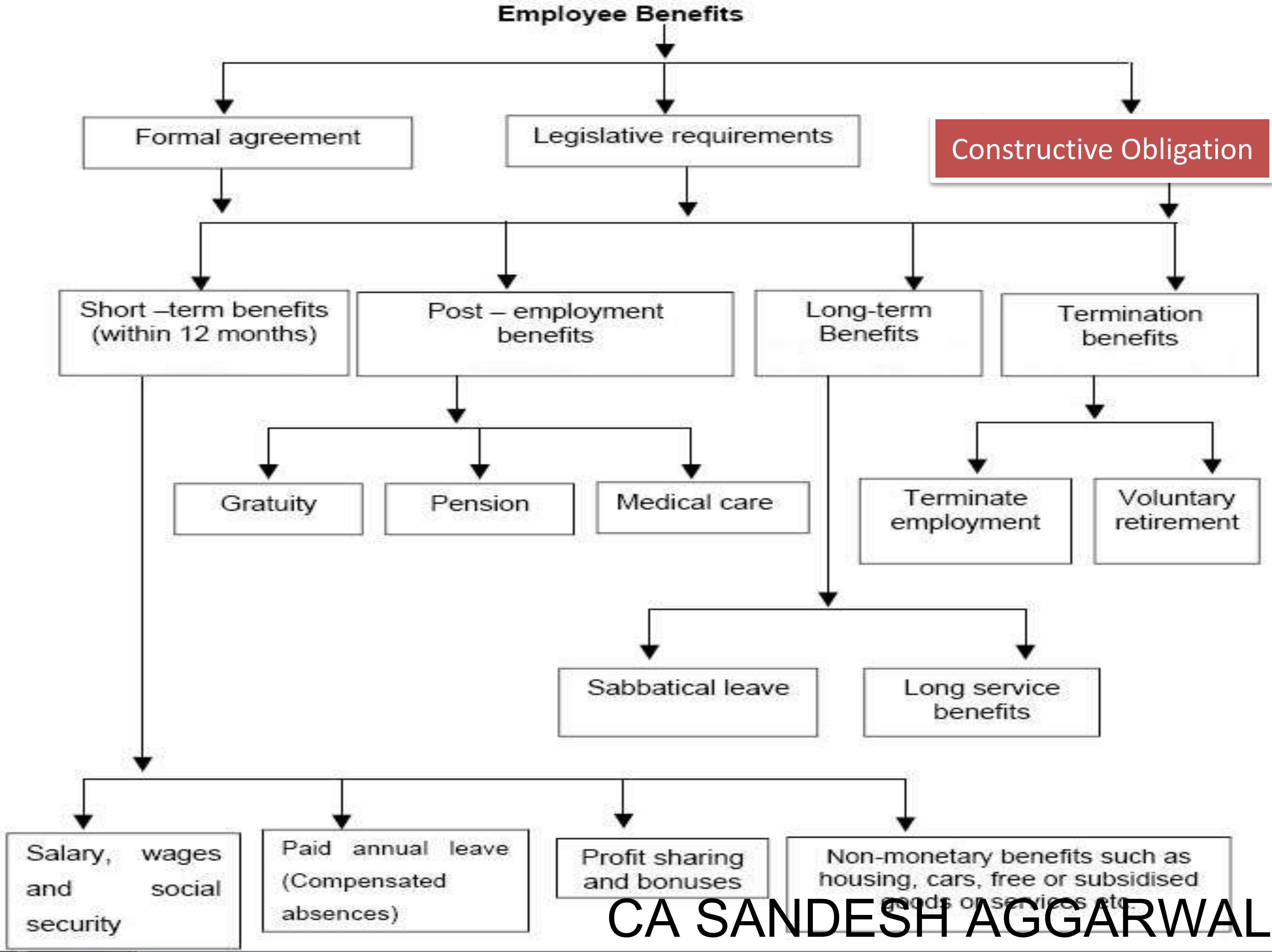
Employee Benefits
Formal agreement
Legislative requirements
Constructive Obligation
Short –term benefits (within 12 months)
Post – employment benefits
Long-term Benefits
Termination benefits
Gratuity
Pension
Medical care
Terminate employment
Voluntary retirement
Sabbatical leave
Long service benefits
Salary, wages and social security
Paid annual leave (Compensated absences)
Profit sharing and bonuses
Non-monetary benefits such as housing, cars, free or subsidised goods or services etc.

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# SHORT TERM EMPLOYEE BENEFITS

## DEFINITION

| IND AS – 19 | AS – 15 |
|---|---|
| Employee benefits (other than termination benefits) that are due to be settled within 12 Months after the end of the period in which employees rendered the related services. | Employee benefits (other than termination benefits) which fall due wholly within 12 Months after the end of the period in which employees rendered the related services. |

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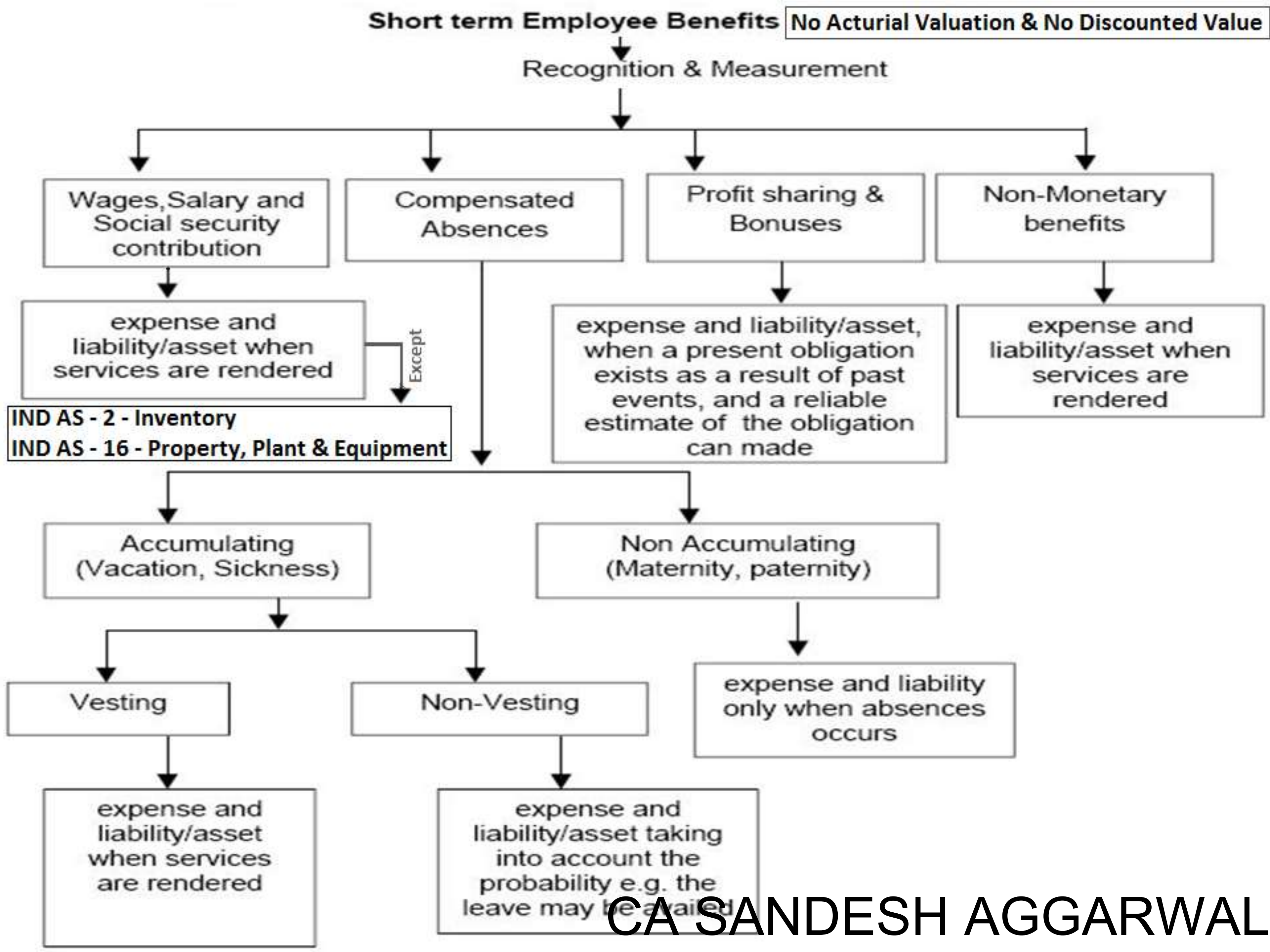
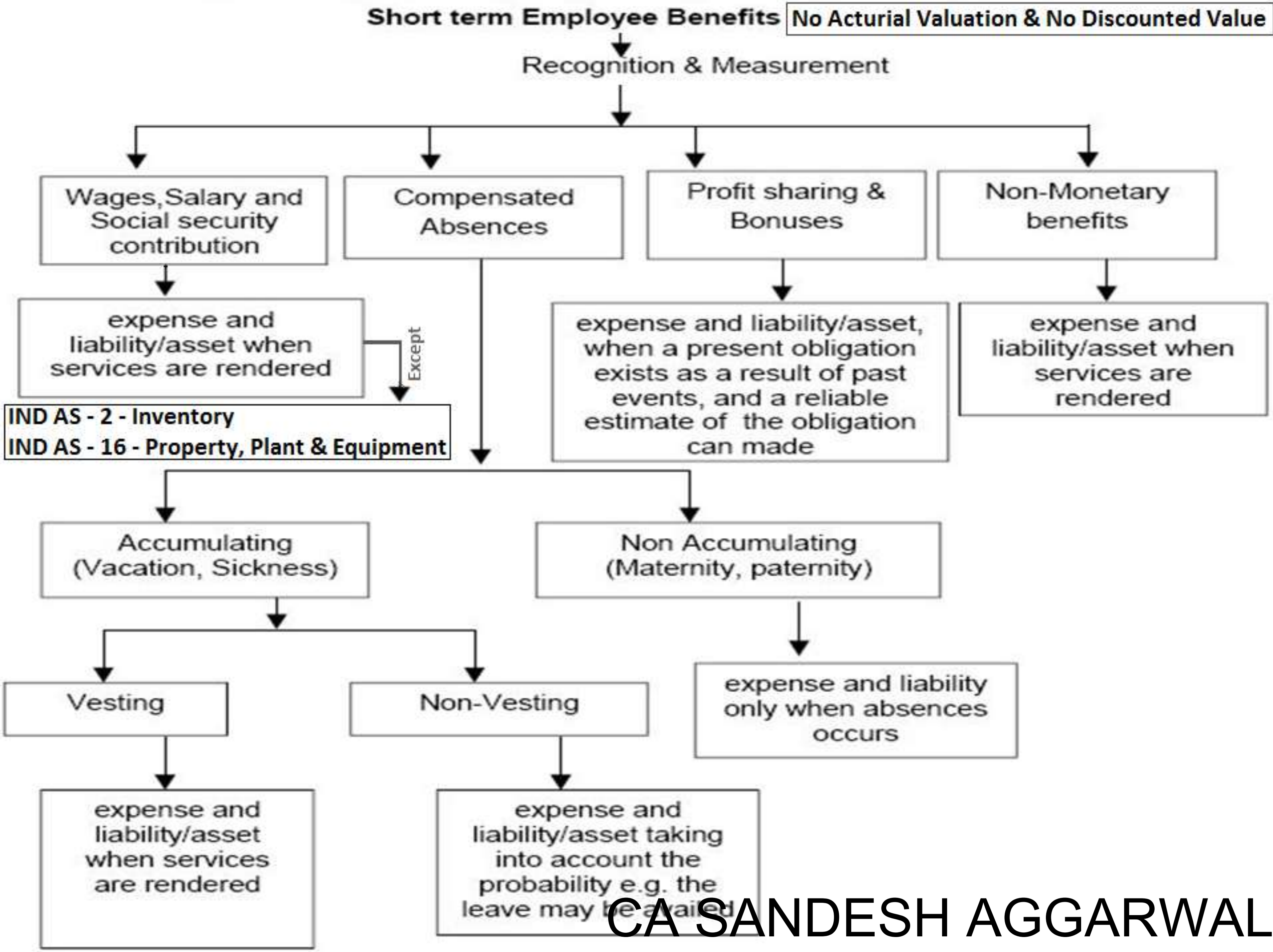

Short term Employee Benefits
No Acturial Valuation & No Discounted Value
Recognition & Measurement
Wages,Salary and Social security contribution
Compensated Absences
Profit sharing & Bonuses
Non-Monetary benefits
expense and liability/asset when services are rendered
Except
IND AS - 2 - Inventory
IND AS - 16 - Property, Plant & Equipment
expense and liability/asset, when a present obligation exists as a result of past events, and a reliable estimate of the obligation can made
expense and liability/asset when services are rendered
Accumulating (Vacation, Sickness)
Non Accumulating (Maternity, paternity)
Vesting
Non-Vesting
expense and liability only when absences occurs
expense and liability/asset when services are rendered
expense and liability/asset taking into account the probability e.g. the leave may be availed

# Example illustrating Compensated Leaves

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 31 December, 2013, 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 2014 and that the remaining **eight employees** will take an average of **six and 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, 2013 (one and a half days each, for eight employees). Therefore, the entity **recognizes a liability equal to 12 days of sick pay.**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# Disclosure requirements

No particular disclosure required

Except

**IND AS - 24 –**
"Related Party Disclosures", requires disclosures about employee benefits for Key Managerial Personnel (KMP)

**IND AS – 1 –**
"Presentation of Financial Statements", requires disclosure for employee benefits expenses

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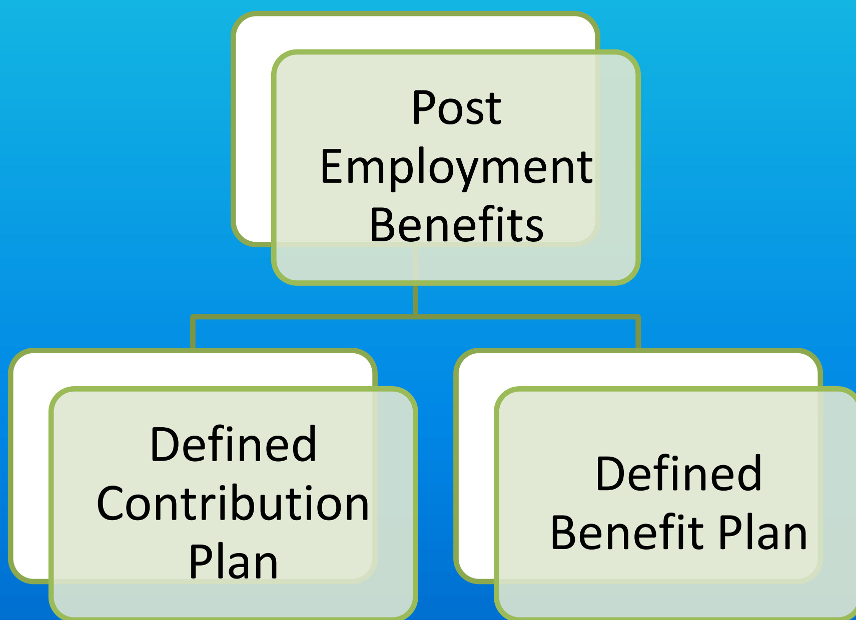
# POST EMPLOYMENT BENEFITS

Retirement Benefits like – Gratuity, Pension, Provident Fund etc.

Other post employment benefits like – Post Employment Life Insurance , Medical Care etc.

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# POST EMPLOYMENT BENEFITS PLANS

## DCP v/s DBP

| | |
|---|---|
| 1. Entity's obligation is limited to the amount of contribution to fund.<br>2. Benefits to be received by employee is determined by fund.<br>3. Actuarial risk & Investment risk fall on the employee.<br>4. Ex. – PF, GSLI etc. | 1. Entity's obligation is to provide agreed benefits to its employees, so it may vary year to year basis.<br>2. Benefits to be received by employee is predetermined by entity itself.<br>3. Actuarial risk & Investment risk fall on the entity.<br>4. Ex. – Gratuity, Pension, Medical Care |

Defined Contribution Plan

**Recognition & Measurement**

1. Recognize as an expense and liability / asset when services are rendered.

2. If contribution does not fall due with in 12 months, then discounted value should be used.

**Disclosure**

Amount recognized as an expense for DCP.

# Defined Benefit Plan

**Disclosure**

Same as per existing AS – 15

**Recognition & Measurement**

Recognize expense and liability as per actuarial valuation and discounted basis.

**Balance Sheet**

Liability = PV of DBO – Fair Value of Plan Asset

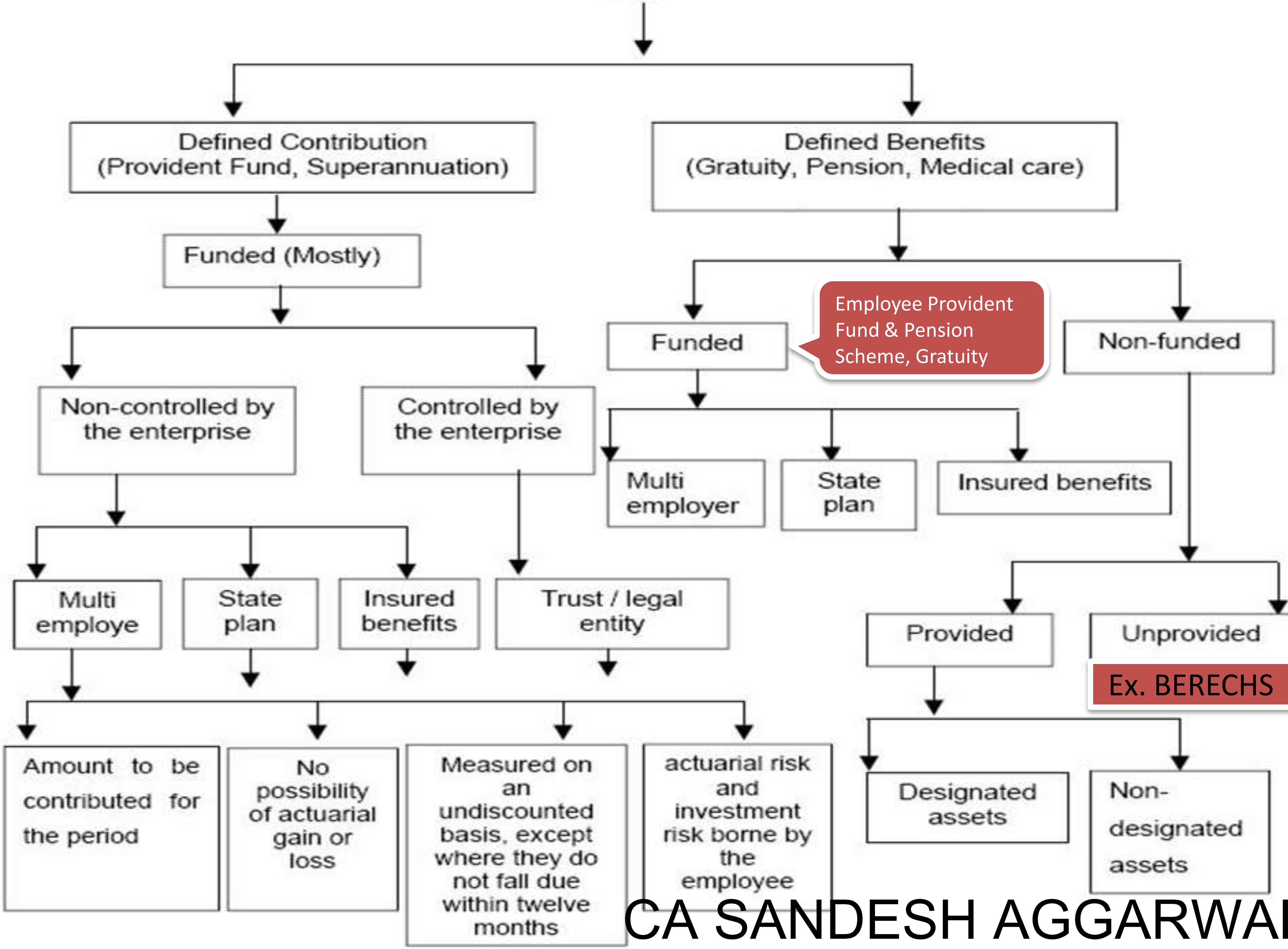
**Profit & Loss A/c**

Total of following:-

1. Current Service Cost
2. Interest Cost
3. Expected return on plan asset (if any)
4. Past Service Cost
5. Effect of any curtailment or settlement

Actuarial gain or loss will be shown in **Other Comprehensive Income** and recognized immediately in **Retained Earnings**. Existing AS - 15 requires it's recognition in P&L as income or expense.

## Post – Employment Benefits



# MULTI – EMPLOYER PLAN

## Added new para 32A

There can 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 Para 30 shall recognize the asset or liability that arises from the contractual agreement and the resulting income or expense in profit or loss.

## Example

An entity participates in a multi-employer plan and accounts for the plan as a defined contribution plan. There is a deficit of Rs.100 lakh in the plan. The plan has agreed under contract that each participant out of total 5 will bear equal share in profit or loss that will eliminate the deficit over the next five years.

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

# MULTI – EMPLOYER PLAN

New para 32B v/s old para 36

As per AS-15 – in case of multi-employer plan, **recognition and disclosure** should be as per AS – 29 –"Standard on provisions, contingent liabilities and contingent assets"

Now it has been amended and **only disclosure** should be as per AS -37- "Standard on provisions, contingent liabilities and contingent assets"

# MULTI – EMPLOYER PLAN

Defined benefit plans in which **risks are shared between various entities under common control**, now these entities will be treated as **Related Parties** and all the contributions will be treated as related party transactions and require disclosures as per IND AS - 24 – "Related Party Disclosure".

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# OTHER LONG TERM EMPLOYEE BENEFITS

## DEFINITION

| IND AS – 19 | AS – 15 |
| --- | --- |
| Employee benefits (other than termination benefits) that are not due to be settled within 12 Months after the end of the period in which employees rendered the related services. | Employee benefits (other than termination benefits) which do not fall due wholly within 12 Months after the end of the period in which employees rendered the related services. |

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Other Long Term Employee Benefits

**Balance Sheet**

Recognize as a **Liability** = Present Value of Defined Benefit Obligation – Fair Value of Plan Assets

**Profit & Loss Account**

Recognize as **expense** total of following:-

1. Current Service Cost
2. Interest Cost
3. Expected return on plan asset (if any)
4. Past Service Cost
5. Effect of any curtailment or settlement

Actuarial gain or loss will be shown in **Other Comprehensive Income** and recognized immediately in **Retained Earnings**. Existing AS - 15 requires it's recognition in P&L as income or expense.

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# Termination Benefits

**AS – 15**

Present obligation from past events + Reliable estimate

## Recognition

Recognize as an expense & Liability only when:-

1. Entity is committed to terminate (formally planned).

2. Provide termination benefits to encourage VRS.

**AS – 15**

No provision to encourage VRS

## Measurement

1. If benefits due after 12 months, use discounted value.

2. If offer is to encourage VRS, then value benefits as per probability of acceptance of offer.

## Termination Benefits

### Disclosure

1. If uncertainty about number of employees who will accept offer, show it as a contingent liability. So disclose it as per IND AS – 37.

2. As per IND AS – 1 – “Disclosure in Financial Statements”, show expense of termination benefits if it is material.

3. As per IND AS – 24 – “Related Party Disclosure”, show termination benefits for KMP.

Thank you