AS-15 Accounting for Employee Benefits

SUMMARY

Employee Benefits

1) **Short Term Employee Benefits:** Allowed to Employees within 12 Months from the End of Reporting Period. Ex: Salaries, Wages, Perquisites, Bonus etc
2) **Retirement Benefits:** Post Employment Benefits, Ex: Pension, Gratuity, Medical Facilities etc.
3) **Other Long Term Benefits:** These are Benefits which are not necessarily paid after Retirement but are paid to Employees during the Employment after they complete a Specified Period in Employment. Ex: Sabbatical(Long Leave) etc
4) **Termination Benefits:** VRS, Retrenchment compensation

Short Term Employee Benefits

- Accounted for on Accrual Basis
- Benefit Paid > Benefit Allowed= Asset
- Benefit Paid< Benefit Allowed= Liability
- Always Calculated on the Undiscounted Basis
- No Specific Disclosure Required, Other AS may Require: Ex: AS-18

Short Term Compensated Absences

- **Accumulating:** Carried Forward and can be used in the in the Future Period's if the Current period entitlement is not fulfilled.
  a) **Vesting:** Can Be Encashed
  b) **Non Vesting:** Non Encashable,but Eligible to be availed

Example:	**Y0**	**Y1**	**Y2**	**Y3**
Working Days	**300**	**300**	**300**	**300**
Casual Leaves allowed	**15**	**15**	**15**	**15**

Leaves Availed by the Employee	**15**	**5**	**10**	**30**
Salary Paid for	**285**	**285**	**285**	**285**
Service of the Employee Recd	**285**	**295**	**290**	**270**
Provision should be Created for	**0**	**10**	**5**	**0**

- **Non Accumulating:** They Lapse if the Current Period's Entitlement is not used in full and do not entitle an employee to cash a payment for unused. No Separate Recognition is Required for them

Retirement and Other Long Term Benefits

- **Defined Benefit Plan:** Benefits arising to Employees are defined. Example: Gratuity

  Gratuity= 15 Days Salary*Completed Year of Service*Last Drawn Salary

  Now Last Drawn is not known now and moreover not paying anything today so there might be cash crunch or cash might not be available at the time of Actual Payment. To overcome this Problem enterprises go for Insurance Plans, Multi Employer Plans, Create a Trust Etc.

  Under Defined Benefit Plan, an enterprise undertakes to pay the agreed Employee benefits and the Actuarial Risk and the Investment Risk falls on the Enterprise.

  Charge to P/L in case of Defined benefit Plan

  Current Service Cost
  +Interest Cost
  + Return on Plan Assets
  +Actuarial Gain or Loss
  +Past Service Cost
  +Curtailment/Settlement

Example: Salary of the Employee in Y0: Rs 10000/- and Salary is Expected to Increase each Year by 10%. Assume Discount Rate of 10%
Benefit: 10% of Salary at end of Year for Every Completed Year of Service

Salary on Retirement: 10000(1.10) ^5 = 16105/-
Benefit= 16105*10%*5= Rs 8052/-
Every Year Provision Rs 8052/5*PVF
Y1 = 1610.50*.683= Rs 1099
Y2 = 1610.50*.751= Rs 1209
Y3 = 1610.50*0826= Rs 1330
Y4 = 1610.50*0.909= Rs 1464
Y5 = 1610.50*1 = Rs 1610
The Above Calculated is the Current service Cost.

	Opening Provision	Current Service Cost	Interest Cost
1	-	1099	-
2	1099	1209	110
3	2418	1330	242
4	3990	1464	399
5	5853	1610	585

Total at End of Year 5= 5853+1610+585= Rs 8048/-

At the Balance Sheet Date, Defined Benefit Liability is recognized as
PV of Defined Benefit Obligation-Unrecognized Past Service Cost-FV of Plan Assets

- **Defined Contribution Plan:** Post Employment benefit plan under which enterprise pays fixed Contribution into a Separate Entity (Fund) and will have no Obligation to Pay further Contributions if the fund does not hold sufficient assets to Pay all the Employees benefits Relating to Employee Service in Current and Prior Periods.

Return on Plan Assets: Interest or Dividend or Gain on Sale of Investment.

- Expected Return= %*Plan Assets= Credited to P/l
- Actual Return=
- FV of Plan Assets (Closing)= FV of Plan Assets(Opening)+Contribution towards Plan Asset-Benefits Paid out of Plan Assets+Actual Return on Plan assets.

The difference between the Expected Return on Plan Assets and the Actual Return on Plan Assets is the Actuarial Gain or Loss.