

1. A Ltd. Has following details of leave of its employee

Name	Total Leave	Total Leave Availed	Vested Leave	Unvested Leave	Probability
X	80	50	20	5	.90
Y	70	45	15	10	.70
Z	60	50	-	9	.60
M	90	70	20	-	.5
N	85	65	10	10	1
P	65	45	9	1	.20

Salary per working day is Rs.1000

Journalize entries for Short term compensated Absence

Answers

1. Multiply sum of all vested leaves by salary per day = $74 \times 1000 = 74000$
2. Multiply all unvested leave by there probability and multiply there sum by salary per day = $28 \times 1000 = 28900$

Vested Leave	Unvested Leave * Probability
20	$5 \times .90 = 4.5$
15	$10 \times .70 = 7$
-	$9 \times .60 = 5.4$
20	$- \times .5 = 0$
10	$10 \times 1 = 10$
9	$1 \times .20 = 2$
TOTAL = 74	TOTAL = 28.9

A Ltd. Has to pay retirement benefit of 25% of last drawn salary for each completed year. No. of years remaining till retirement are 6. Current salary is 5000, expected to grow at 10%p.a. Discount rate is 12%.

Answer

1. Determine salary on retirement by compounding with growth rate of 10%

CY	2	3	4	5	6
5000	5500	6050	6655	7320	8052

2. Determine retirement benefit payable
Last drawn salary * no. of years of service * benefit percent
 $8052 \times 6 \times 25\% = 12,078/-$
3. Divide benefit by each year of service to make provision
 $12078/6 = 2,013/-$
4. Make provision of above amount at the end of each year of service discounted by remaining years of service

Particulars	CY	2	3	4	5	6
Amount	2013	2013	2013	2013	2013	2013
Years of discounting	5	4	3	2	1	0
PVF	$(1/1.12)^5$	$(1/1.12)^4$	$(1/1.12)^3$	$(1/1.12)^2$	$(1/1.12)^1$	$(1/1.12)^0$
	0.5674	0.6355	0.7118	0.7972	0.8928	1
Provision required (Amount * PVF)	1142	1279	1433	1605	1797	2013

5. Calculate interest on above mentioned provision account on opening balance @ discount rate

Op. bal.	0	1142	2558	4299	6420	8985
Provision	1142	1279	1433	1605	1797	2013
Interest on opening bal	0	137	308	516	768	1080
Closing bal.	1142	2558	4299	6420	8985	12078

3. As on 1st April, 2011 the fair value of plan assets was Rs. 1,00,000 in respect of a pension plan of Zeleous Ltd. On 30th September, 2011 the plan paid out benefits of Rs. 19,000 and received inward contributions of Rs. 49,000. On 31st March, 2012 the fair value of plan assets was Rs. 1,50,000 and present value of the defined benefit obligation was Rs. 1,47,920. Actuarial losses on the obligations for the year 2011-12 were Rs. 600.

On 1st April, 2011 the company made the following estimates, based on its market studies, understanding and prevailing prices.

Interest & dividend income, after tax payable by the fund	9.25
Realized and unrealized gains on plan assets (after tax)	2.00
Fund administrative costs	(1.00)
Expected Rate of Return	10.25

You are required to find the expected and actual returns on plan assets.

Answer

Computation of Expected and Actual Returns on Plan Assets

Answer

Start with opening balance of fair value asset account	100000/-
Add Contribution made to the fund during the year	49000/-
Less Benefits paid by the fund during the year	19000/-
Net of above	130000/-
Closing balance of plan asset account	150000/-
Difference must be actual return earned	20000/-

Expected return = interest for full year on opening balance = $100000 \times 10.25\% = 10250/-$

Interest for half year on net of contribution made and benefits paid as both are done in the middle of the year as given in the question = $30000 \times 10.25\% \times 6/12 = 1538/-$

TOTAL = $10250 + 1538 = 11788/-$

4. Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. In this, if the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

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

(a) Immediately before the curtailment, gross obligation is estimated at Rs. 6,000 based on current actuarial assumption.

(b) The fair value of plan assets on the date is estimated at Rs. 5,100.

(c) The unamortized past service cost is Rs. 180.

(d) Curtailment reduces the obligation by Rs. 600, which is 10% of the gross obligation.

Answer	
Start with defined benefit obligation	6000
Deduct unamortised past service cost	(180)
Net Liability	5820
Deduct curtailment benefit as follows (Curtailment benefit * Net Liability) = $600 * 5820$ Defined benefit Obligation 6000	(582)
Obligation payable	5238
Less: Plan Assets available	(5100)
Net Liability payable	138