

Ind AS 19, *Employee Benefits*: ICAI's Perspective



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Issues in Accounting for Employee Benefits under Accrual Basis of Accounting

- What are Employee Benefits?
- When to recognise Employee Benefits Liability/Expense?
 - At the time services are rendered
- How it should be measured?
 - Estimated settlement amount.



Issues in Accounting for Employee Benefits under Accrual Basis of Accounting... (Contd.)

- Addressing the issues becomes complex when gap between
 - timing of recognition and
 - settlement of obligation

is great, especially when

Amount of settlements depends on uncertain future variables (DBPs)



How these issues addressed?

Daunted by complexity of estimation –

- Pay-as-you-go (Not addressing the issue)
Cash basis; not accrual
- Govt. accounting: Still considered onerous
- Not appropriate under Accrual Basis



How these issues addressed by ICAI for private enterprises?

- Statement on Treatment of Gratuity in Accounts withdrawn w.e.f. 1.4.1995 when
- AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers, came into effect
- AS 15 was revised in 2005, titled as ‘Employee Benefits’, effective from December 7, 2006
 - Existing Standard
- Existing AS 15 based on the then effective IAS 19
- Ind AS 19 issued in 2011 as part of convergence programme was based on that IAS 19



How these issues addressed by ICAI for private enterprise? ... (Contd.)

- IAS 19 revised in June 2011
- Although ICAI revised Ind AS 19 in 2011, it was notified in February 2015
- To come into effect as per Roadmap announced by MCA for specified companies
- Existing AS 15 under revision to bring it nearer to revised Ind AS 19 – Applicable to Non-Ind AS entities



Ind AS 19, Employee Benefits, like AS 15 classified the benefits into

- Short-term
- Post-employment
- Other Long-term



Issues in AS 15 re short-term benefits

Definition: Benefits which fall **due** wholly within 12 months after the end of last annual reporting period

Short-term compensated absences: ‘Expected to occur’ within 12 months

ASB’s Guidance: Apart from falling due, also expected to be availed wholly within 12 months

➤ Ind AS 19: ‘*Expected to be settled* before 12 months’



Post-employment benefits

(a) ***Defined Contribution Plans:*** Entity pays

- Fixed contribution to a plan (Fund)
- No further obligation if fund does not hold sufficient assets

(b) ***Defined Benefit Plans:*** other than DCP

Issue: Interest guaranteed by employer based on Govt. announcement whether DCP or DBP?

ASB's view: DBP (AS 15). Also, relevant for Ind AS 19



Accounting: Defined Contribution Plans

Straight forward

- Liability/Expense determined by contributions to be made during the period
- No actuarial assumptions required
- No actuarial gains/losses
- Undiscounted amounts



Defined Benefit Plans – Involves following steps

- (a) Determining deficit/surplus –
 - (i) Using actuarial technique - projected unit credit method; to estimate ultimate cost of benefit earned during the period – involves

Actuarial assumptions

- Demographic, e.g., employees turnover, mortality
- Financial, e.g., salaries, discount rate, medical costs

Involvement of Qualified Actuary: Ind AS 19 encourages; AS 15 states ‘normally uses the services’



Accounting: Defined Benefit Plans... (Contd.)

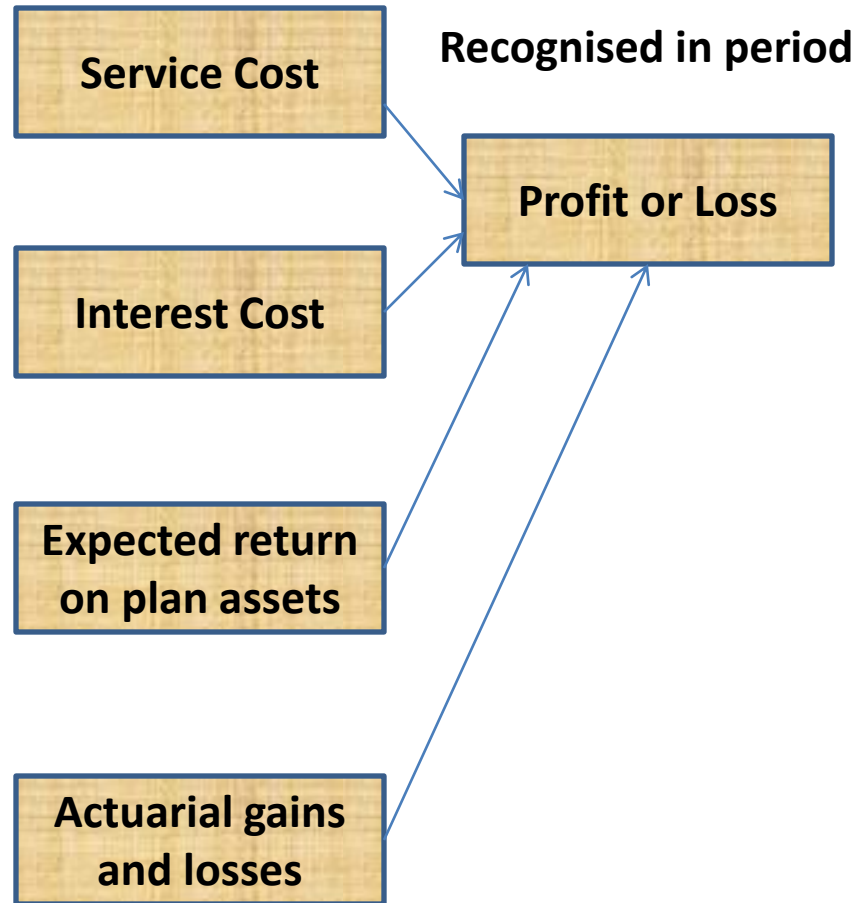
- (ii) Discounting the benefit
- (iii) Deduct fair value of plan assets
- (b) Determining net defined benefit liability/asset [DBL(A)]: surplus/deficit under (a) adjusted for asset ceiling
- (c) Determining amounts in profit or loss
 - (i) Service cost
 - (ii) Any past service cost/gain (loss) on settlement
 - (iii) Net interest on DBL(A)



Accounting: Defined Benefit Plans... (Contd.)

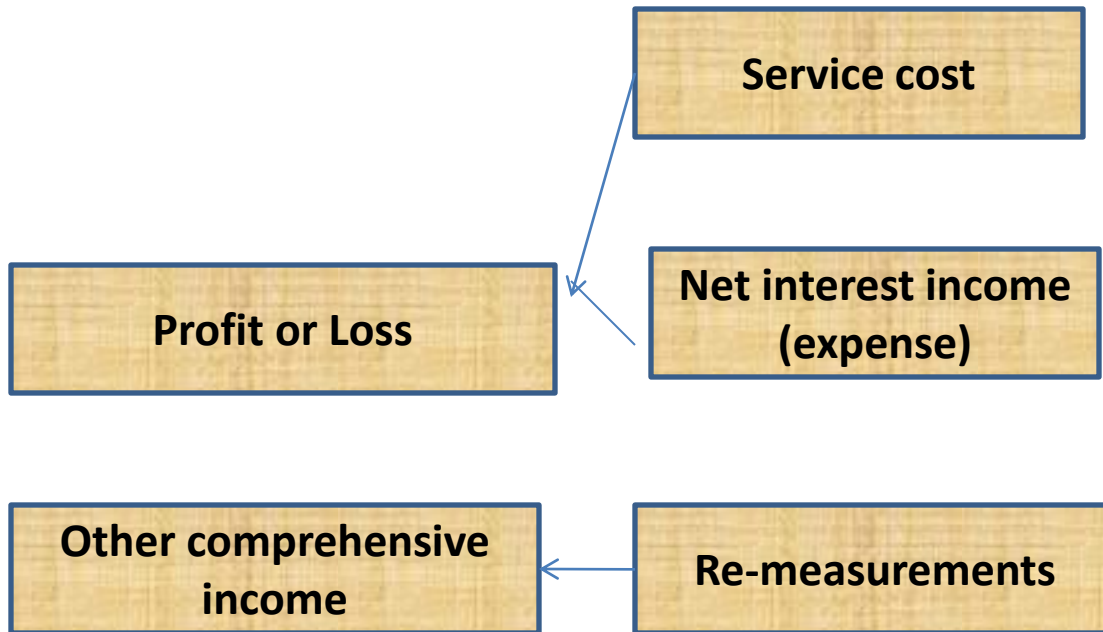
- (d) Determining the re-measurements of DBL(A) to be recognised in OCI, comprising
 - (i) Actuarial gains and losses
 - (ii) Return on plan assets excluding amounts included in net interest
 - (iii) Change in effect of asset ceiling excluding amounts included in net interest





New components of defined benefit cost

Recognised in period



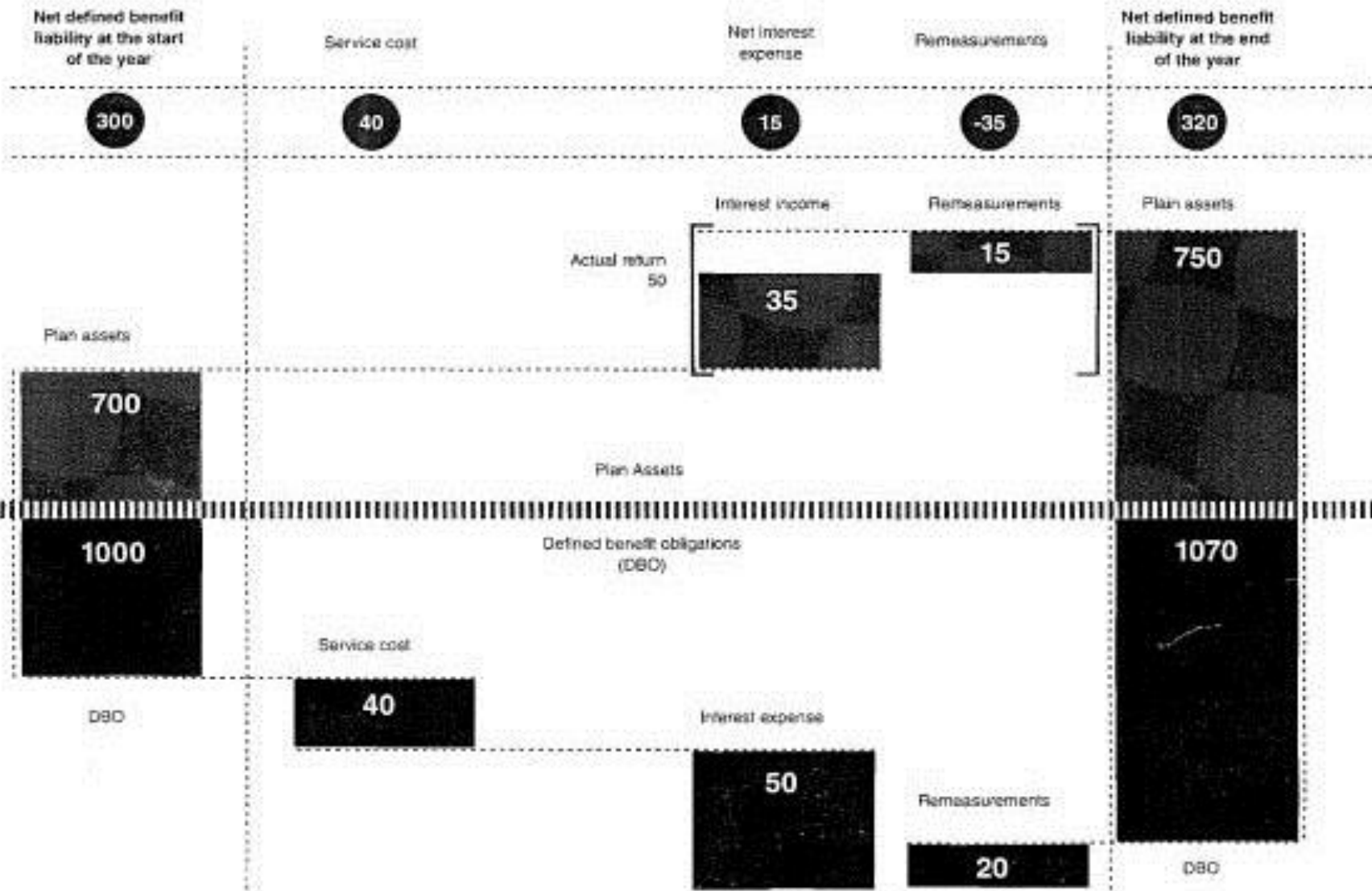
Ind AS 19 requires a new approach.

It requires companies to recognise:

- Service and finance cost in profit or loss and re-measurements in OCI; and
- A surplus as a net defined benefit asset and a deficit as a net defined benefit liability.



Illustration of the new components



AS 15

- Market yield on Govt. Bonds
- Currency & term of Govt. bonds consistent with currency & term of DBO

Ind AS 19

- Same as AS 15
- Same as AS 15
- Subsidiary, associates & JVs, branches outside India
 - High quality corporate bonds
 - If no deep market: Govt. bonds



Discount Rate Issues

- What are ‘high-quality’ corporate bonds?
- Govt. bonds: Quality?
- Amendments made in IAS 19: Instead of ‘countries’ for which there is no deep market in high quality corporate bonds, the market yields on government bonds to be used;

the word ‘currency’ has been used and it is specified that the government bonds shall be ‘denominated in that currency’.



AS 15

- Vested on Introduction or Change in DBP: *Immediate Recognition as Expense*
- Unvested: *Expense on straight line basis over the vesting period*

Ind AS 19

Both vested and unvested recognised immediately



Other long-term Employee Benefits

Examples: Long-term paid absences (sabbatical leave), disability benefits

Measurement not subject to same uncertainty as DBP

Simplified accounting

- Surplus/deficit as in DBP
- Recognise in P&L
 - (i) Service cost
 - (ii) Net interest
 - (iii) Re-measurements such as actuarial gains & losses



Termination Benefits

Meaning:

- Entity's decision to terminate, or
- Employer's acceptance of offer in exchange of termination

Accounting:

➤ *Recognise* at earlier of

(i) When no longer able to withdraw benefits, and

(ii) Recognise cost of restructuring under Ind AS 37

➤ *Measurement:* As per the nature of benefit

If of the nature of post-employment benefits:

(a) Short-term benefits or

(b) Other than long-term benefits



Thank You

