

AS -15

Employee Benefits

- CA. (Dr.) Anand Banka

Employee?

Not defined

An employee may provide services to an enterprise on a

- full-time
- part-time
- permanent
- casual
- temporary basis

Employees also include whole-time directors and other management personnel

Employee Benefits include

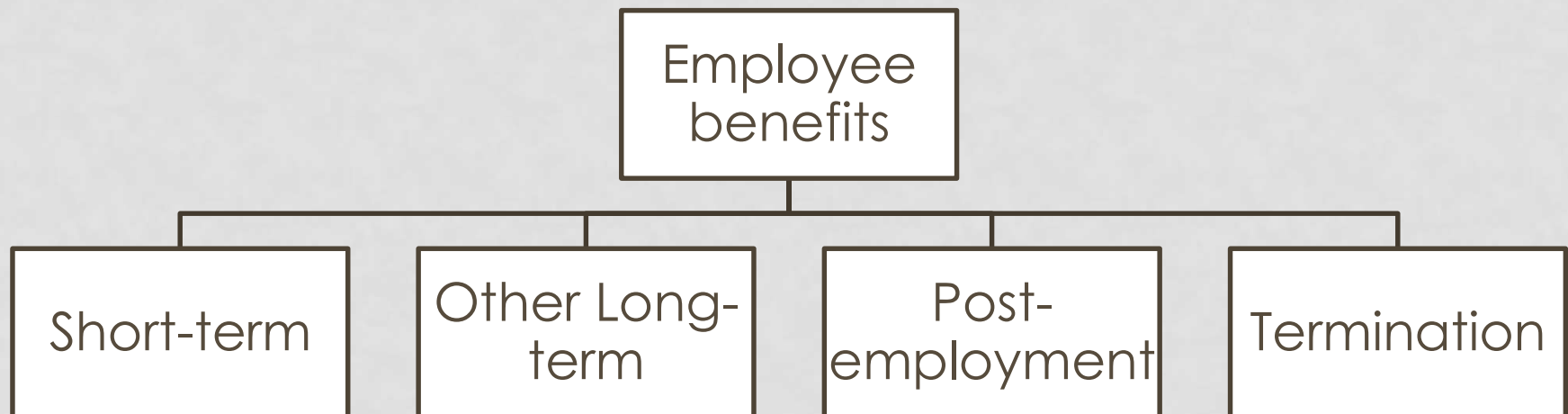
Benefits
provided
to

- Spouses
- Children
- Other dependants

Benefits?



Classification



Short-term Employee Benefits

Wages, salaries,
paid annual
leave, profit-
sharing and
bonuses

Medical care,
housing, cars
and free or
subsidised
goods or
services

if payable
within twelve
months of the
end of the
period

for current
employees

Other Long-term Employee Benefits

Long-service leave

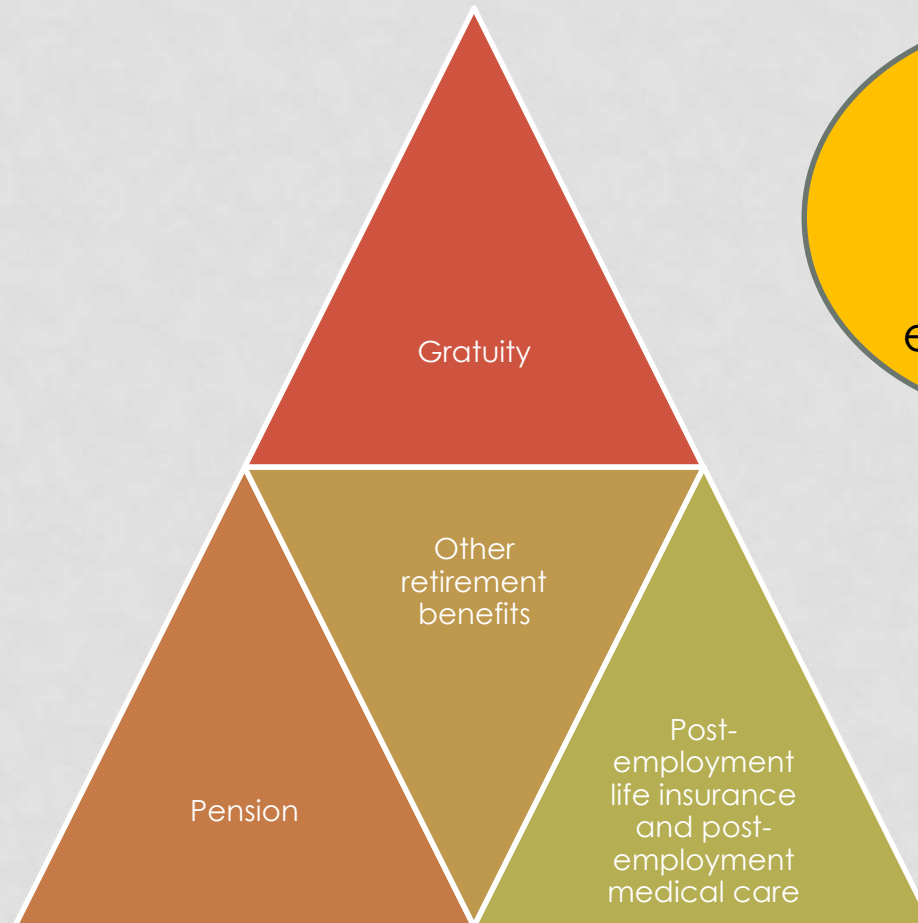
Sabbatical leave

Long-term disability benefits

Deferred compensation

Not payable wholly within twelve months after the end of the period

Post-employment Benefits



Payable
after
completion
of
employment

Termination Benefits

Employee benefits payable as a result of either:

- an enterprise's decision to **terminate** an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits (**voluntary retirement**)

SHORT-TERM BENEFITS

Recognition

- No discounting
- No actuarial valuation
- Simple charge to I&E account

Compensated absences??

How many leaves do you get in a year?

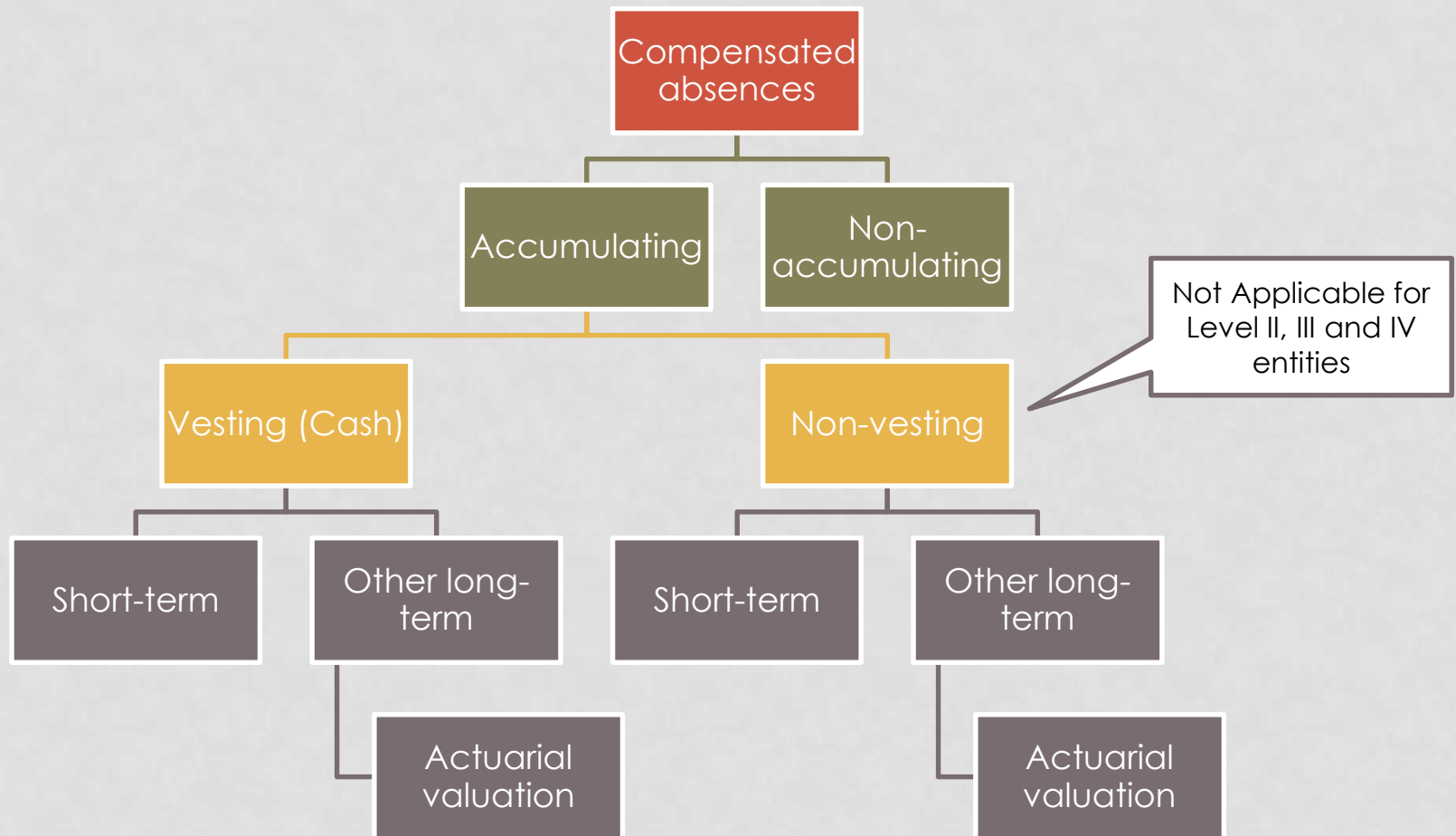
How many of it can you carry forward to the next year?

How many years can you carry forward your leaves?

Can you encash your unutilised leaves?

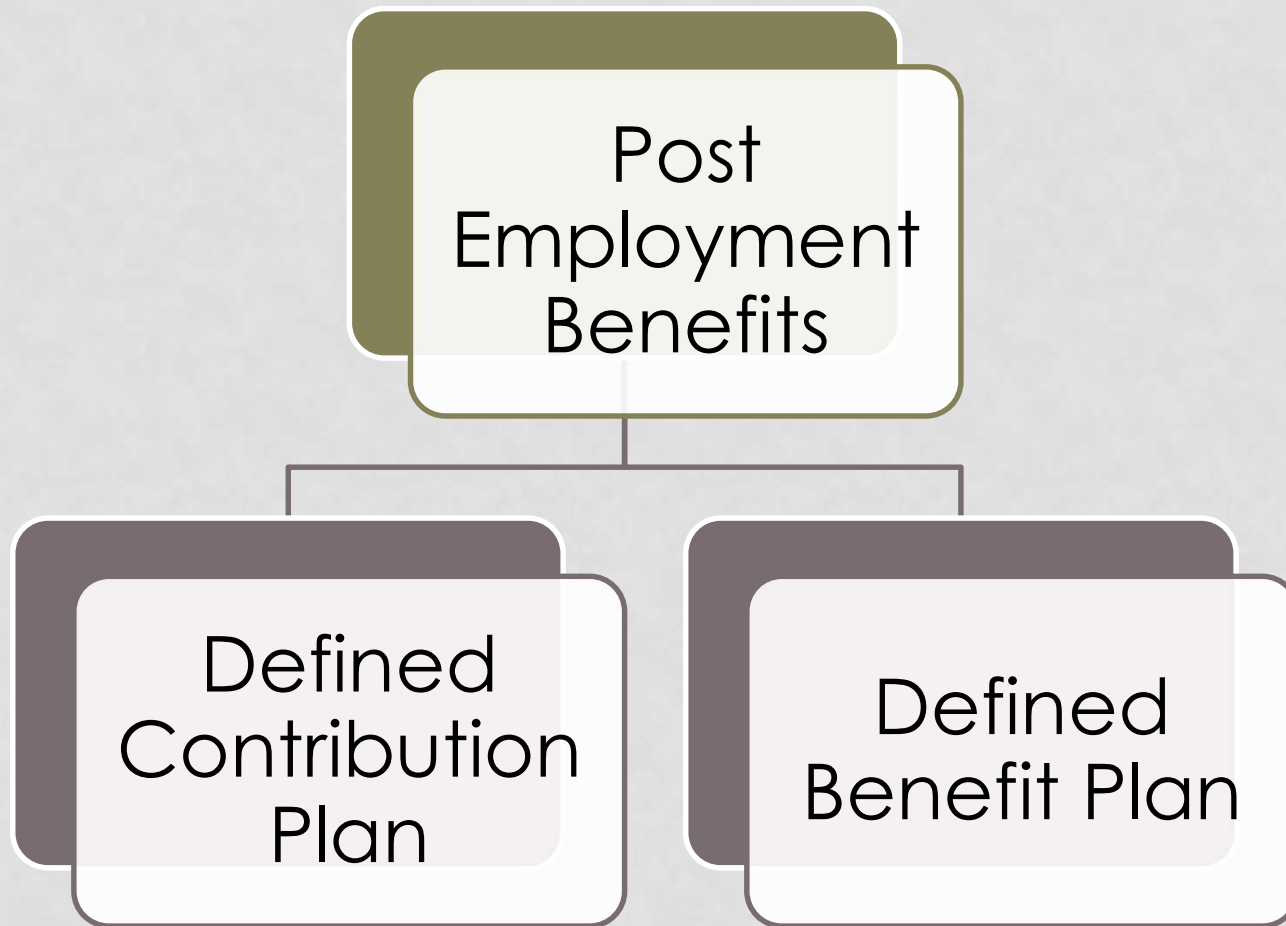
How do you account for such leaves?

Compensated absences



POST EMPLOYMENT BENEFITS

Classification



Post Employment Benefits

Post Employment Benefits

Defined Contribution Plan

Actuarial Risk ×

Investment Risk ×

Defined Benefit Plan

Actuarial Risk ✓

Investment Risk ✓

Fixed Contribution

Fixed Benefits

Actuarial Risk: Benefits will be less than expected

Investment Risk: Assets invested will be insufficient

Defined Contribution Plan



Enterprise pays **fixed contributions** into a separate entity (a fund)

No legal or constructive obligation to pay further contributions

Even if the fund does not hold sufficient assets to pay all employee benefits

Examples

- Provident Fund

Accounting

Booking of Expense

- Expenditure Dr
- To Liability

Payment of Contribution

- Liability Dr
- To Bank

Defined Benefit Plan

Benefits are fixed

Obligation to pay further contributions, if deficit

Even if contributions made to some fund/ insurance companies/rusts

Examples

- Gratuity
- Pension

For Level II and III with > 50 employees:
Obtain actuarial report using PUC method.
Disclose principal actuarial assumptions

For other entities:
Use some other rational method e.g. assume
that all employees retire at reporting date

Accounting

Booking of Expense

- Expenditure Dr (Based on Actuarial Valuation)
- To Liability

Payment of Contribution

- Liability Dr
- To Bank

Actuary Report - Example B/S

A Net Asset/(Liability) Recognised in Balance Sheet - 31 March 2013	
1 Present value of Defined Benefit Obligation	6,60,191
2 Fair Value of Plan Assets	1,61,163
3 Funded Status [Surplus/(Deficit)]	(4,99,028)
4 Unrecognized Past Service Costs	0
5 Net Asset / (Liability) recognized in the Balance Sheet	(4,99,028)
B Current / Non Current Liability - 31 March 2013	
1 Expected Benefit Payout from 31 March 2013 to 31 March 2014	2,903
2 Fair Value of Plan Assets as at 31 March 2013	1,61,163
3 Current Liability	0
4 Non Current Asset/ (Liability)	(4,99,028)
5 Net Asset/ (Liability) as at 31 March 2013	(4,99,028)
Assumptions at 31 March 2013	
Discount Rate	8.00%

Actuary Report – Example I/E

Components of Employer Expense	
1 Current Service cost (including risk premiums for fully insured benefits)	5,62,027
2 Interest Cost	52,815
3 Expected Return on Plan Assets	(28,747)
4 Curtailment Cost / (Credit)	0
5 Settlement Cost / (Credit)	0
6 Past Service Cost	0
7 Actuarial Losses / (Gains)	(5,22,026)
8 Total employer expense recognized in P&L	64,068
Assumptions at 31 March 2013	
Discount Rate	8.00%

Actuary Report - Example Assumptions

Financial Assumptions	01-Apr-13	31-Mar-14
Discount Rate	8.00%	9.25%
Expected Return on Assets	7.00%	7.00%
Salary Escalation Rate	7.00%	7.00%

Demographic Assumptions	01-Apr-13	31-Mar-14
Mortality Rate	Indian Assured Lives Mortality (2006-08) (modified) Ult.	Indian Assured Lives Mortality (2006-08) (modified) Ult.
Withdrawal Rate	5.00%	5.00%

OTHER LONG-TERM
EMPLOYEE BENEFITS

Example

- Leave encashment/ Paid leaves

For Level II and III with > 50 employees:
Obtain actuarial report using PUC method

For other entities:
Use some other rational method e.g. assume
that all employees retire at reporting date

Accounting

Booking of Expense

- Expenditure Dr (Based on Actuarial Valuation)
- To Liability

Payment

- Liability Dr
- To Bank

TERMINATION BENEFITS

Examples

- Notice Pay
- VRS

Accounting

Booking of Expense

- Expenditure Dr
- To Liability

Payment

- Liability Dr
- To Bank

Summary

Benefits	Actuarial Valuation	Disclosures
Short-term	×	×
Post – Employment	✓	✓
Other Long-term	✓	×
Termination	×	×