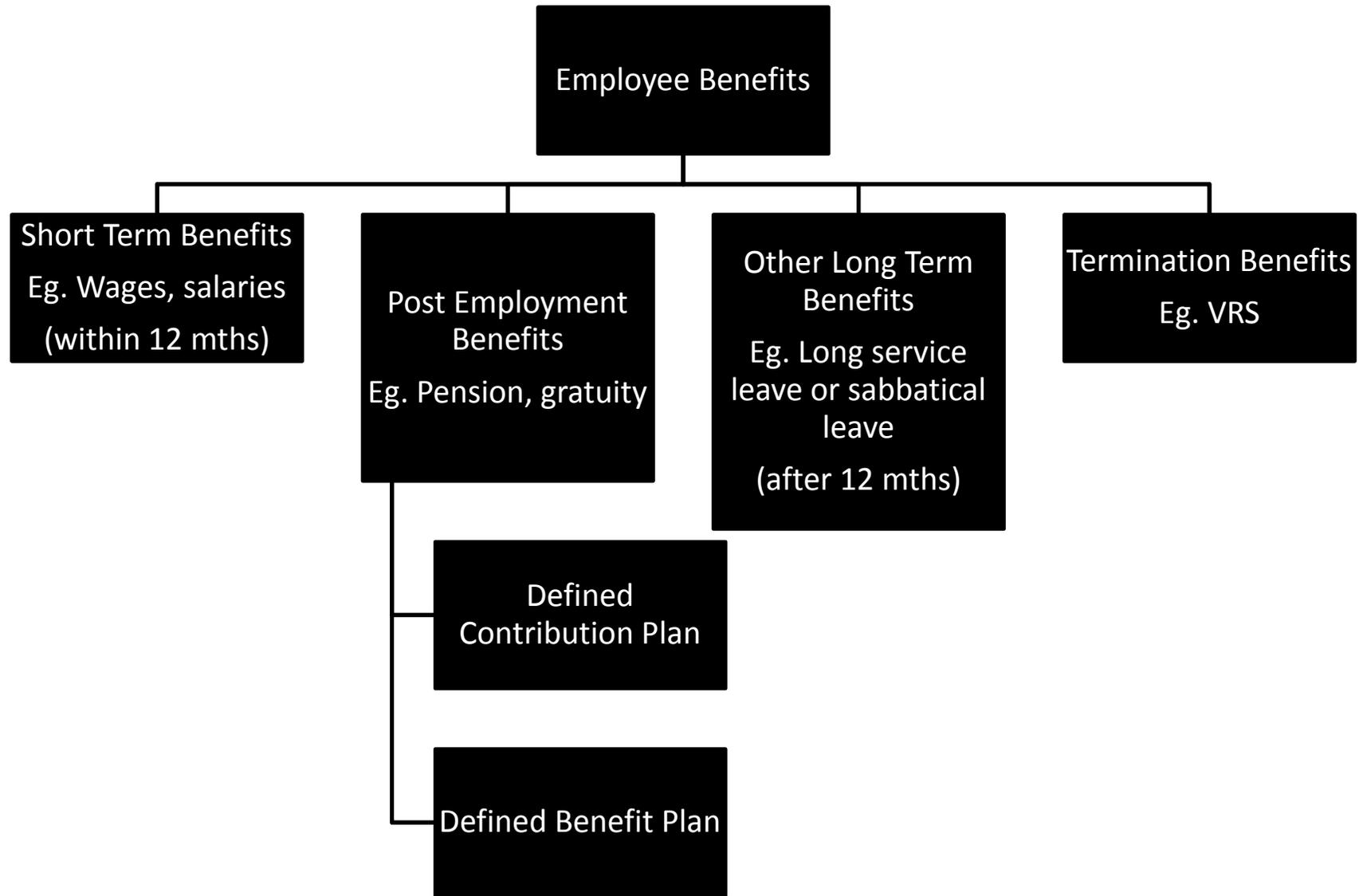


# IFRS ICAI Presentation

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# IAS 19 - EMPLOYEE BENEFITS



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# Types of post-employment benefit plans

- The accounting treatment for a post-employment benefit plan depends on whether the plan is a defined contribution plan or a defined benefit plan.
- A Defined contribution plan:
  - the entity pays fixed contributions into a fund
  - has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay all of the employees entitlements to post-employment benefits.
- A Defined benefit plan:
  - is a post-employment benefit plan other than a defined contribution plan.
  - These would include both formal plans and those informal practices that create a constructive obligation to the entity's employees.

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Defined Contributions

Variable Benefits



Variable Contributions

Defined Benefits

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# Defined contribution plans

- For defined contribution plans, the cost to be recognised in the period is the contribution payable in exchange for service rendered by employees during the period. [IAS 19(1998).44]
- If contributions to a defined contribution plan do not fall due within 12 months after the end of the period in which the employee renders the service, they are discounted to their present value. [IAS 19(1998).45]

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# Past service cost

- **Past service cost** is the term used to describe the change in the obligation for employee service in prior periods, arising as a result of changes to plan arrangements in the current period.
- Past service cost may be either
  - positive (where benefits are introduced or improved) or
  - negative (where existing benefits are reduced).
- Past service cost is recognised immediately to the extent that it relates to former employees or to active employees already vested.

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# Plan curtailments or settlements

- Gains or losses resulting from curtailments or settlements of a plan are recognised when the curtailment or settlement occurs. [IAS 19(1998).109-110]  
Curtailments are reductions in scope of employees covered or in benefits.

Particulars	Before Curtailment	Curtailment Gain/Loss	After Curtailment
PV of DBO	2000	(500)	1500
FV of Plan assets	(1400)	-	(1400)
Total	600	(500)	100
Unrecognised Past Service Cost	(70)	20	(50)
Net Liability recognised in SOFP	530	(480)	50

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# PUCM

- The present value of the defined benefit obligation should be determined using the Projected Unit Credit Method.  
[IAS 19(1998).64]

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# Actuarial Valuation & Assumptions

- Accounting for DBP is complex because actuarial assumptions are required to measure the obligation and the expense leading to possibility of actuarial gains or losses.
- Normally, the service of a qualified actuary is required because the obligations are measured on a discounted basis on the basis of certain assumptions and settled years later.
- The assumptions used for the purposes of such valuations must be unbiased and mutually compatible. [IAS 19(1998).72]

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- Actuarial Gains and Losses Comprise
  - experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and
  - the effects of changes in actuarial assumptions.
  - In the long-term, actuarial gains and losses may offset one another and, as a result, the entity is not required to recognise all such gains and losses in profit or loss immediately.

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# No more corridor approach

- ~~— IAS 19 (1998) specifies that if the accumulated unrecognised actuarial gains and losses exceed 10% of the greater of—
  - a) the defined benefit obligation or
  - b) the fair value of plan assets,a portion of that net gain or loss is required to be recognised immediately as income or expense.~~
- ~~— The portion recognised is the excess divided by the expected average remaining working lives of the participating employees. Actuarial gains and losses that do not breach the 10% limits described above (the 'corridor') need not be recognised although the entity may choose to do so. [IAS 19(1998).92-93]~~
- In December 2004, the IASB issued amendments to IAS 19 (1998) to allow the option of recognising actuarial gains and losses in full in the period in which they occur, outside profit or loss, in other comprehensive income.**

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# Defined Benefit Plan

Particulars	PV of Defined Benefit Obligation	FV of Plan Asset
B/f at the start of the year	(X)	X
Retirement Benefits paid out	X	(X)
Contributions paid into the plan	-	X
Interest on Plan Assets	-	X
Interest Cost on obligation	(X)	-
Current service cost	(X)	-
	(X)	X
G/L on remeasurement (Bal. fig)	X/(X)	(X)/X
C/f at the end of the yr (advised by Actuary)	(X)	x

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# Amount to be recognised in B/S

Particulars	Amount
Unrecognised actuarial losses	X
(+) past service cost	X
(+) present value of available refunds	X
(+) reductions in future contributions to the plan	X
Net amount to be recognised as an asset/ (liability)	X/(X)

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# Recognition of Profit / loss and OCI

Item	Recognition in
Service Cost i) Current Service Cost ii) Past Service Cost iii) Any gain/loss on settlement	Profit/Loss
Net Interest on net DBO* (Unwinding of discount)	Profit/Loss
Actuarial gains & losses	OCI (not reclassified to P/L)

\*Net DBO = DBO – Plan assets (Only when interest is to be computed on net DBO)

Otherwise consider –

Interest on plan assets as credit to P/L and

Discount on DBO as debit to P/L.

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# Amount to be recognised in P&L Account

Particulars	Amount
current service cost	X
(+) interest cost	X
(-) expected return on plan assets	(X)
(-) expected return on reimbursement rights, if any	(X)
(+) past service cost	X
(+/-) effect of any plan curtailments or settlements	(X)/X
(+/-) effect of 'asset ceiling'	(X)/X
Net amount to be recognised in the P&L A/c as an expense	X

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# B/S Presentation

- If the calculation of the statement of financial position amount set out above results in an asset, the amount recognised is limited to the net total of unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan. [IAS 19(1998).58]
- The IASB issued the final 'asset ceiling' amendment to IAS 19 (1998) in May 2002. The amendment prevents the recognition of gains solely as a result of deferral of actuarial losses or past service cost, and prohibits the recognition of losses solely as a result of deferral of actuarial gains. [IAS 19(1998).58A]
- “Asset ceiling” term relates to a threshold established by IAS 19 to ensure that any Defined Benefit Asset ( i.e. a pension surplus) is carried at **no more than its recoverable amount**. In simple terms, this means that any asset is restricted to the amount of cash savings that will be available to the entity in future.

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# P&L Presentation

- The amount recognised in the profit or loss (unless included in the cost of an asset under another Standard) in a period in respect of a defined benefit plan is made up of the following components: [IAS 19(1998).61]
  - current service cost (the actuarial estimate of benefits earned by employee service in the period)
  - interest cost (the increase in the present value of the obligation as a result of moving one period closer to settlement)
  - expected return on plan assets\* and on any reimbursement rights
  - actuarial gains and losses, to the extent recognised
  - past service cost, to the extent recognised
  - the effect of any plan curtailments or settlements
  - the effect of 'asset ceiling'

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## **IFRIC 14- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**

Sometimes minimum contribution amount is set between an entity and a plan. However, if required contribution is less than the contractual minimum contribution, such excess results in economic asset in the form of right to receive refund. On the face of SOFP, such asset can be recognised under IFRIC 14.

Eg. Minimum contribution \$10000, Required contribution \$8000 (as per actuarial valuation) , Excess contribution paid \$2000.

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# Economic benefits available as a refund

- If an entity has an unconditional right to a refund
- during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund, or
- assuming the gradual settlement of the plan liabilities over time until all members have left the plan, or
- assuming the full settlement of the plan liabilities in a single event (i.e. as a plan wind-up),
- it recognises an asset measured as the amount of the surplus at the balance sheet date that it has a right to receive as a refund. This is the fair value of the plan assets less the present value of the defined benefit obligation, less any associated costs, such as taxes.

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# Summary

Step	Item	Recognition
1	Record Opening Figures: <ul style="list-style-type: none"> <li>•Asset</li> <li>•Obligation</li> </ul>	
2	Interest cost on obligation <ul style="list-style-type: none"> <li>•Based on discount rate and PV obligation at start of period.</li> <li>•Should also reflect any change in obligation during the period.</li> </ul>	DEBIT : Interest cost (P/L) (x% *b/d obligation) CREDIT: PV defined benefit obligation (SOFP)
3	Interest on plan assets <ul style="list-style-type: none"> <li>•Based on discount rate and asset value at start of period</li> <li>•Technically, this interest is also time apportioned on contribution less benefits paid in the period</li> </ul>	DEBIT: Plan asset (SOFP) CREDIT: Interest cost (P/L) (x% *b/d assets)

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# Summary

Step	Item	Recognition
4	Current Service Cost •Increase in the PV of the obligation resulting from employee service in the current period	DEBIT: Current Service Cost (P/L) CREDIT: PV defined benefit obligation (SOFP)
5	Contributions •As advised by actuary	DEBIT: Plan Asset (SOFP) CREDIT: Company cash
6	Benefits •Actual pension payments made	DEBIT: PV defined benefit obligation (SOFP) CREDIT: Plan Asset (SOFP)
7	Past Service Cost •Increase/decrease in PV obligation as a result of introduction or improvement of benefits	Positive (increase in obligation): DEBIT: Past Service Cost (P/L) CREDIT: PV defined benefit obligation (SOFP)

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# Summary

Step	Item	Recognition
8	Gains and losses on settlement <ul style="list-style-type: none"> <li>•Difference between the value of the obligation being settled and the settlement price</li> </ul>	Gain DEBIT: : PV defined benefit obligation (SOFP) CREDIT: Service cost (P/L) Loss DEBIT: : Service cost (P/L) CREDIT: PV defined benefit obligation (SOFP)
9	Remeasurements: actuarial gains and losses <ul style="list-style-type: none"> <li>•Arising on annual valuations of obligation</li> <li>•On obligation, differences between actuarial assumptions and actuarial experiences during the period, or changes in actuarial assumptions</li> </ul>	Gain DEBIT: : PV defined benefit obligation (SOFP) CREDIT:OCI Loss DEBIT: OCI CREDIT: PV defined benefit obligation (SOFP)

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# Summary

Step	Item	Recognition
10	Remeasurements: return on assets (excl. amounts in net-interest) • Arising from annual valuations of plan assets	Gain DEBIT: FV Plan Asset (SOFP) CREDIT: OCI Loss DEBIT: OCI CREDIT: FV Plan Asset (SOFP)

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THAN Q ?

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