



AS 15

Employee Benefits



Post-employment benefit plans

Post-employment benefit plans

DC plans

Obligation limited to amount of contributions paid to fund

Plans under which entity has no further obligation, legal or constructive, to pay amounts in addition to contributions as set out in plan documentation

DB plans

- **All other plans**
- **Recognise legal and constructive obligations**

Plans for which the entity has a legal or constructive obligation to make good any shortfall in benefits levels as set out in plan documentation

Defined contribution plans

**Expense recognised
= contributions paid
and payable**

**Accrue cost as
service is rendered**

**Any shortfall / excess
of contributions
payable over amounts
paid is recognised as
liability / asset**

**Disclose amount
recognised as
expense**

Defined benefit plans

Accounting complexity in DB plans

Demographic assumptions; mainly based on past experience, such as:

- Mortality rate
- Rate of employee turnover, disability, early retirement etc.

Financial assumptions; based on market expectation, such as:

- Discount rate, expected rate of return on plan assets
- Future salary and benefit levels, promotion etc.

Balance Sheet

Net defined benefit liability (asset)

=

Defined benefit obligation

-

Fair value of plan assets

**+
-**

Effect of asset ceiling (*if any*)

Defined benefit obligation

Actuarial technique
Projected unit credit method



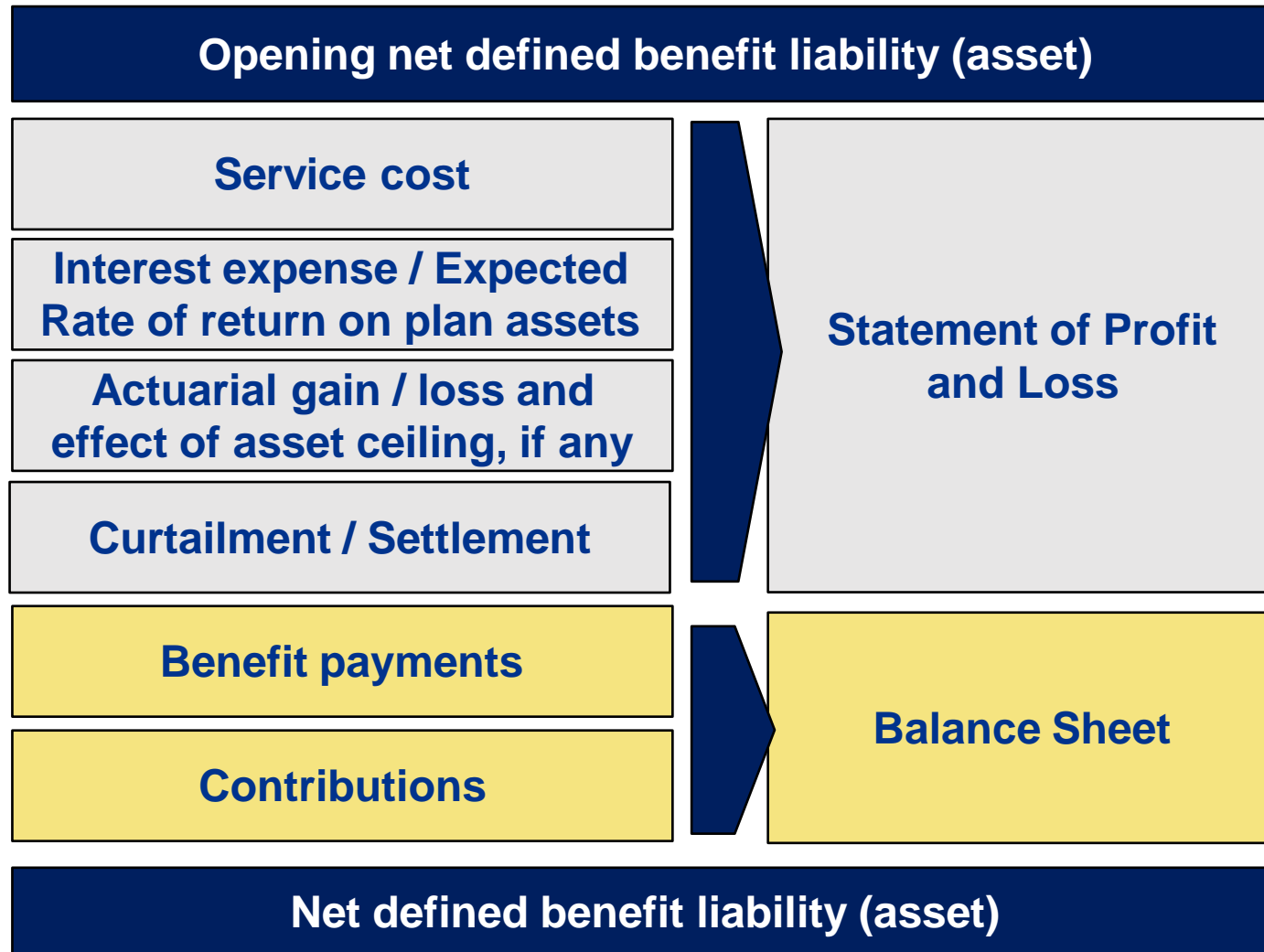
Estimate of ultimate cost



**Discounted using market
yield on Government
bond rate**

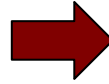
Usually requires involvement of an actuary

Movements for the period in net defined benefit liability



Current service cost

Service costs



Profit or loss

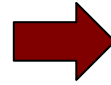
**Each year of employee service
increases the agreed benefit**

**Present value of the benefit earned
for the current year of service**

Actuarial technique
Projected Unit Credit Method

Past service cost

Past service costs to the extent of vested benefits



Profit or loss

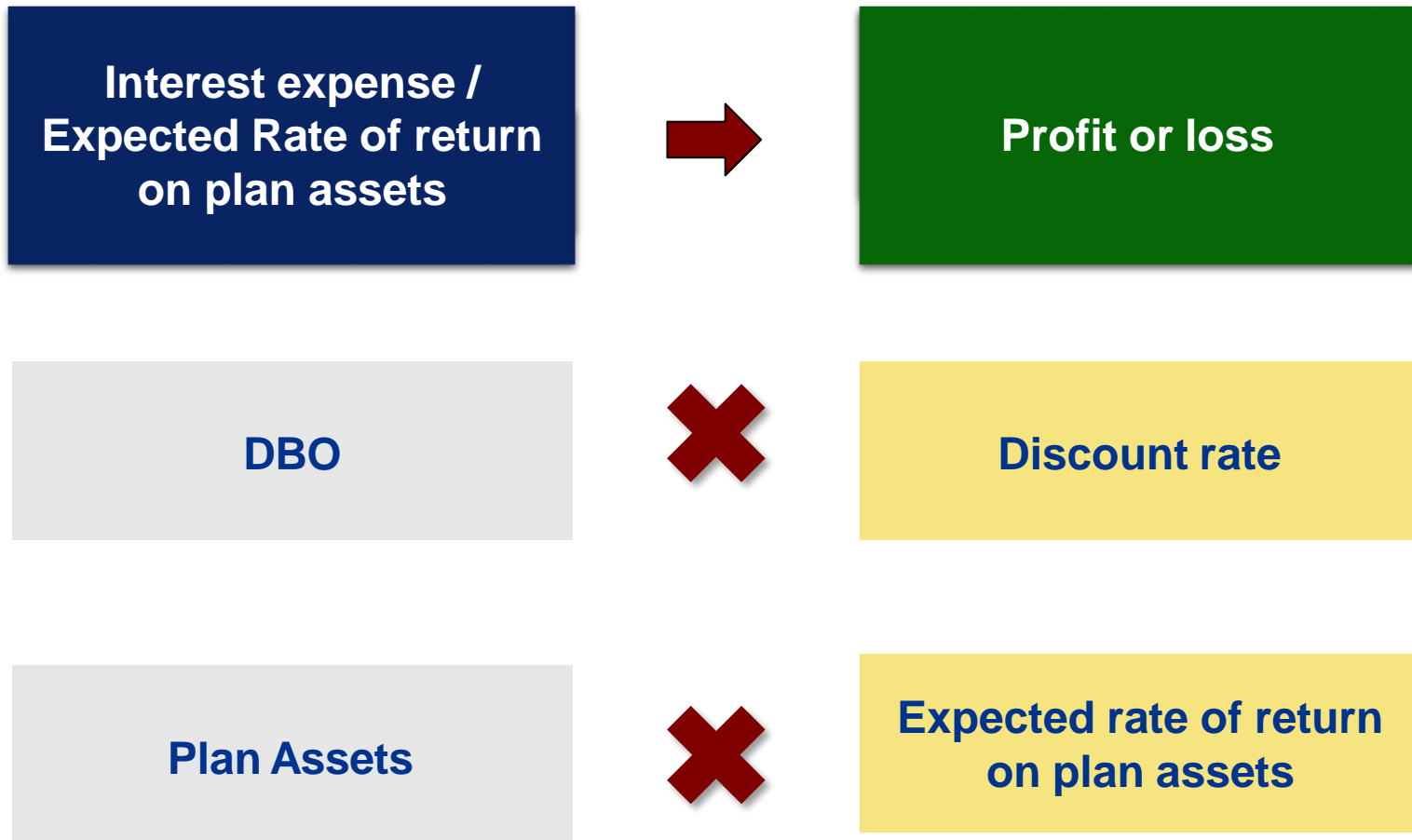
Additional benefits related to services in prior periods

Employee receives pension of 1% of final salary for each year of services

Change: in Year 3 employer increases retrospectively the pension of 1% to 2%

	Year 1	Year 2	Year 3	
			1% for Yr 1	Past service cost
			1% for Yr 2	
			2%	
		1%	1%	
	1%	1%	1%	
Total pension	1%	2%	6%	

Interests and expected rate of return on plan assets



Example 1

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service.

The salary in year 1 is INR 100,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per year. Therefore, total salary expected in final year is INR 131,000

The table in the next slide shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions.

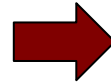
For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Solution

Years	1	2	3	4	5
Benefit attributed to:					
Prior years	-	1,310	2,620	3,930	5,240
Current year (1% × final salary)	1,310	1,310	1,310	1,310	1,310
Current and prior years	1,310	2,620	3,930	5,240	6,550
Opening obligation	-	895	1,969	3,248	4,763
Interest at 10%	-	90	197	325	477
Current service cost	895	984	1,082	1,190	1,310
Closing obligation	895	1969	3,248	4,763	6,550

Actuarial gains and losses

**Actuarial gain / loss
Changes in asset ceiling**



Profit or loss

DBO



Actuarial Gains and Losses

Plan Assets



**Return on Plan
assets**



**Change in effect of
asset ceiling**



Other employee benefits

Short-term employee benefits

Benefits due within 12 months such as:

Wages, salaries, social security contributions

Vacation, sick leave

Profit-sharing, bonuses and deferred compensation to which employee becomes entitled within 12 months after reporting period in which services rendered

Short-term employee benefits – Accounting

Recognition criteria similar to those of AS 29 apply

Undiscounted expected costs recognised as expense

Difference between expected costs and amount paid in reporting period recognised as asset or liability

No specific disclosure requirements – Other disclosures relating to related parties for KMPs may be required

Other long-term employee benefits

Benefits due in more than 12 months such as

Compensated absences

Long-service awards and disability benefits

Profit-sharing, bonuses and deferred compensation to which employee becomes entitled > 12 months after reporting period in which services were rendered

Accounted in the same way as applicable for defined benefit plans, except all past service cost is recognised immediately in statement of profit and loss

Termination benefits – Definition

Termination benefits are employee benefits payable as a result of either:

- an enterprise's decision to terminate an employee's employment before the normal retirement date
- an employee's decision to accept voluntary redundancy in exchange for those benefits (For e.g., voluntary retirement scheme).

Termination benefits – Recognition

An entity should recognize termination benefits as a liability and an expense when, and only when:

- The entity has a present obligation as a result of a past event,
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- A reliable estimate can be made of the amount of the obligation.

Discount if termination benefits fall due more than 12 months after the balance sheet date

Example 2

ABC Ltd. has a headcount of 100 employees in 2021-22. As per the employee policy, the employees are entitled for 30 annual leaves out of which 10 may be carried forward to the next year, 10 sick leaves out of which 2 may be carried forward as paid leave. As at March 31, 2022, the average unused entitlement is 5 days per employee for privilege leave and 1 for sick leave. On an average, it is found that the number of such employees who would be claiming annual leaves would be 30 and 10 employees who would claim sick leaves. Compute the liability to be recognised as sick pay and privilege leave by the entity in 2021-22.

Example 3

Whether concessional loan provided by an enterprise to its employees is an employee benefit and how should such concessional loan be treated in the financial statements of the enterprise?

Example 4

In case of defined benefit schemes covered under a Group Gratuity or other defined benefit scheme with an insurance company, where the actuarial risk and investment risk have not been transferred from the enterprise, whether an enterprise can rely upon actuarial valuation certificate provided by the insurance company or a separate certificate from a qualified actuary is required to be obtained for determination of actuarial liability.

Example 5

What is the meaning of the phrase 'market yields at the balance sheet date on government bonds' used in AS 15 (revised 2005) in the context of the discount rate?

Q & A session

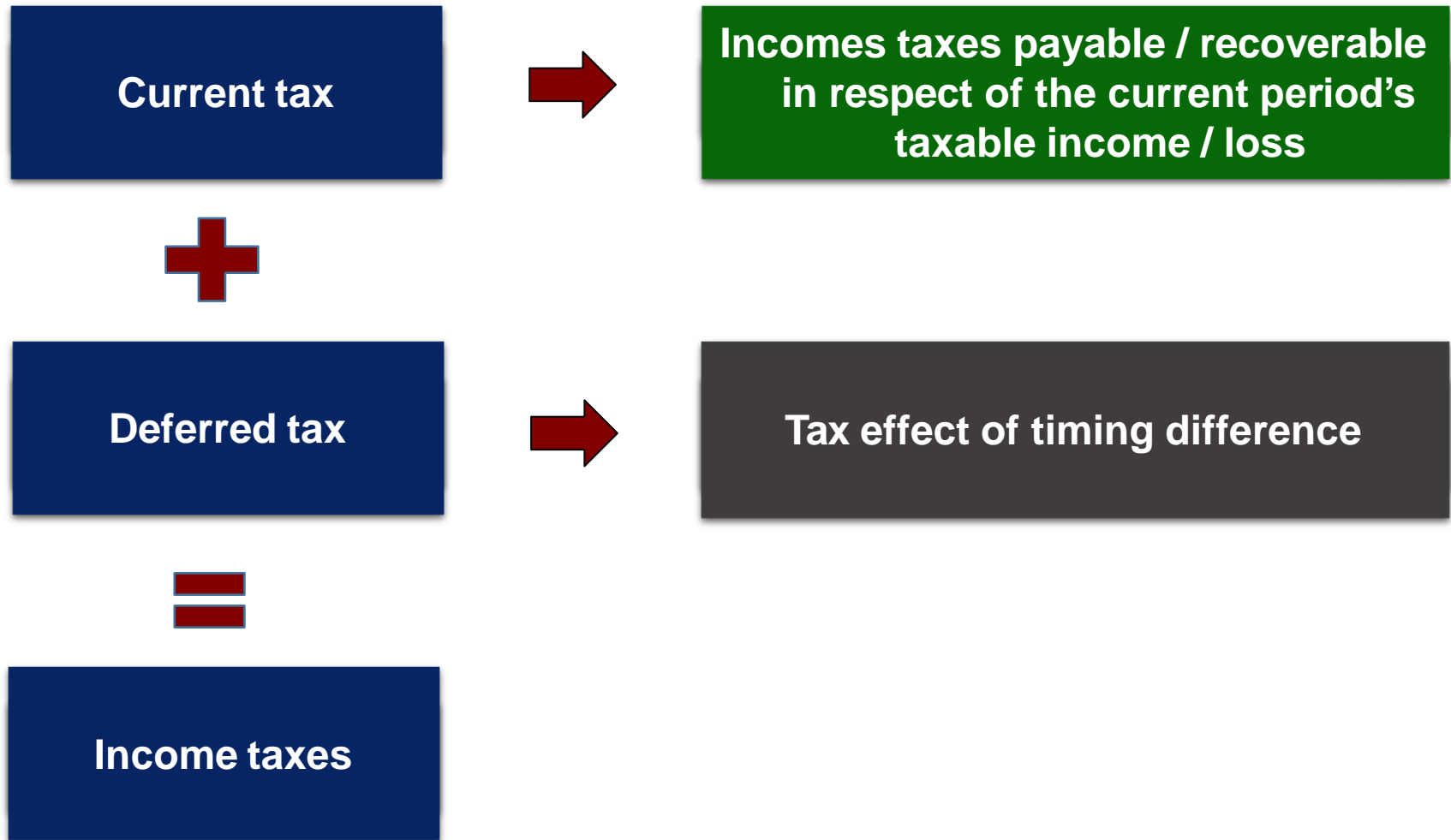




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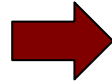
**Accounting for Taxes on
Income**

Overview



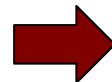
Timing and permanent difference

Timing difference



Differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.

Permanent difference



Differences between taxable income and accounting income for a period that originate in one period and do not reverse subsequently.

Example 1

- Initial cost of a building: INR 1,200
- Useful life: 3 years (tax) vs 6 years (accounting)
- Tax rate: 40%
- Annual profit before taxes and depreciation: INR 2,000

How is income tax calculated?

Example 1 continued

Year	1	2	3	4	5	6
Profit before tax and depreciation	2,000	2,000	2,000	2,000	2,000	2,000
Depreciation expense	(200)	(200)	(200)	(200)	(200)	(200)
Profit before tax	1,800	1,800	1,800	1,800	1,800	1,800
Current tax	(640)	(640)	(640)	(800)	(800)	(800)
Effective tax rate	36%	36%	36%	44%	44%	44%
Net profit	1,160	1,160	1,160	1,000	1,000	1,000

Why does effective tax rate not agree to the applicable tax rate of 40%?

Solution

Year	1	2	3	4	5	6
Building, tax WDV	800	400	-	-	-	-
Building, accounting WDV	1,000	800	600	400	200	-
Timing difference	200	400	600	400	200	-
Deferred tax liability	80	160	240	160	80	
Deferred tax expense	80	80	80			
Deferred tax income				(80)	(80)	(80)
Current tax expense	640	640	640	800	800	800
Income tax expense	720	720	720	720	720	720
Profit before tax	1,800	1,800	1,800	1,800	1,800	1,800
Effective tax rate	40%	40%	40%	40%	40%	40%

Timing differences – examples

- Expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss on mercantile basis but allowed for tax purposes in subsequent years on payment basis.
- Payments to non-residents accrued in the statement of profit and loss on mercantile basis, but disallowed for tax purposes under section 40(a)(i) and allowed for tax purposes in subsequent years when relevant tax is deducted or paid.
- Provisions made in the statement of profit and loss in anticipation of liabilities where the relevant liabilities are allowed in subsequent years when they crystallize.
- Differences in depreciation rates/methods.

Permanent differences – examples

- Exempt income
- Expenses disallowed on permanent basis
- Additional weighted deduction

Case study – long term capital asset

- In cases where there is a difference between the amounts of 'loss' recognised for accounting purposes and tax purposes because of cost indexation under the Income-tax Act, 1961 in respect of long-term capital assets, the deferred tax asset is recognised and carried forward (subject to the consideration of prudence) on the amount which can be carried forward and set-off in future years as per the provisions of the Income-tax Act, 1961.

Example 2

- Cost of indexation of land is computed for tax purposes and indexed cost of acquisition is deductible from the sales proceeds when the land is sold. Therefore, indexed cost of acquisition creates a timing difference that will reverse when the land is sold.
- At the reporting date:
 - carrying amount of the land – 100,000
 - Indexed cost of acquisition of the land: - 1,500,000

The difficulty of estimating the timing of the reversal of the temporary difference is not in itself a reason for not recognising a deferred tax asset. However, it is a relevant factor in assessing the probability of the availability of future tax profits.

If the recoverability assessment is favourable, then a deferred tax asset should be recognised for the timing difference of 1,400,000 (1,500,000 – 100,000)

Case study – deferred tax on losses / unabsorbed depn

- Where an enterprise has unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets should be recognised only to the extent that there is **virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.**
- **Virtual certainty**
 - cannot be based merely on forecasts of performance such as business plans.
 - the evidence should be available at the reporting date in a concrete form, for example, a profitable binding export order, cancellation of which will result in payment of heavy damages by the defaulting party.
 - a projection of the future profits made by an enterprise based on the future capital expenditures or future restructuring etc., submitted even to an outside agency, e.g., to a credit agency for obtaining loans and accepted by that agency cannot, in isolation, be considered as convincing evidence.

Example 3

- Company ABC was established one year ago and is in its start-up phase. In its first year of operations, ABC has a loss of 500,000 for tax purposes. ABC does not have any deferred tax liability.
- ABC expects to be profitable by its third year of operations and expects all tax losses to be utilised by the end of its fifth year of operations.
- In the absence of convincing evidence that future taxable profits will be available, ABC should not recognise a deferred tax asset in respect of tax losses.

Q & A session





AS 11

The Effects of Changes in Foreign Exchange Rates

Objective

This Standard should be applied:

- in accounting for transactions in foreign currencies; and
- in translating the financial statements of foreign operations.

Also deals with accounting for foreign currency transactions in the nature of certain forward exchange contracts



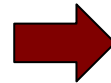
Foreign currency transactions

Initial translation to reporting currency

At date of transaction



**Rate at
transaction
date**



OR



**Appropriate
average rate**

**Which rate should be considered as on
transaction date ?**

Monetary vs non-monetary

Monetary items



Items that will be received / paid in fixed or determinable number of units of currency

Examples

- Cash and bank
- Receivables
- Payables

Non-monetary items

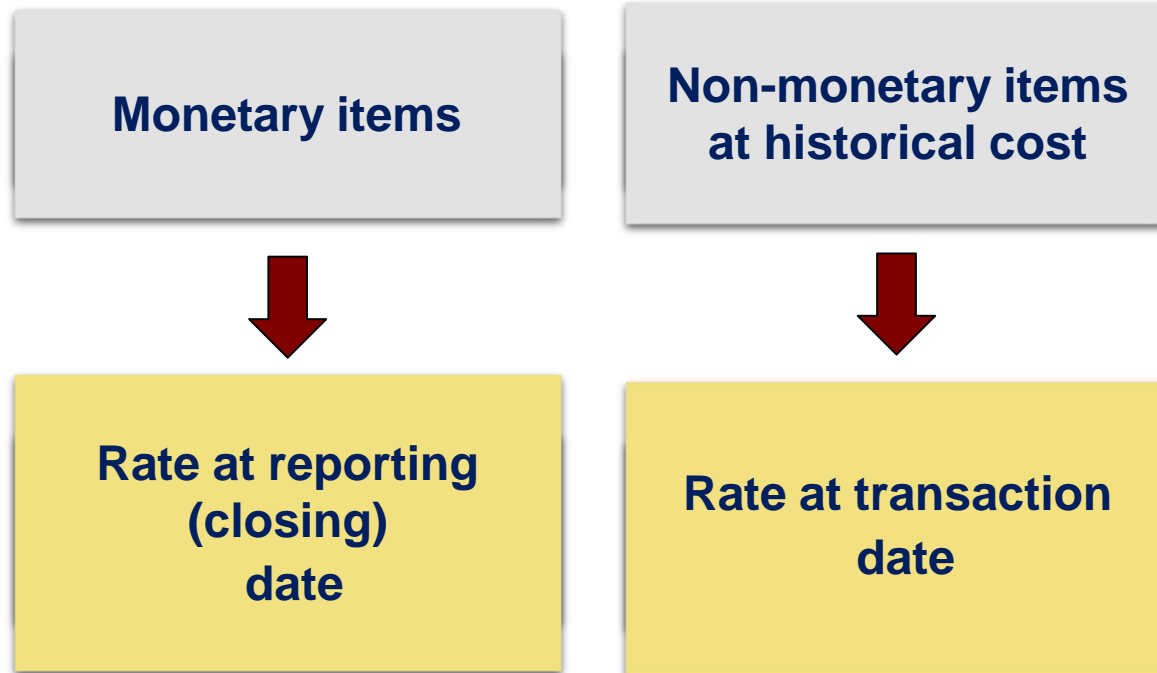


Items that will not be received / paid in fixed or determinable number of units of currency

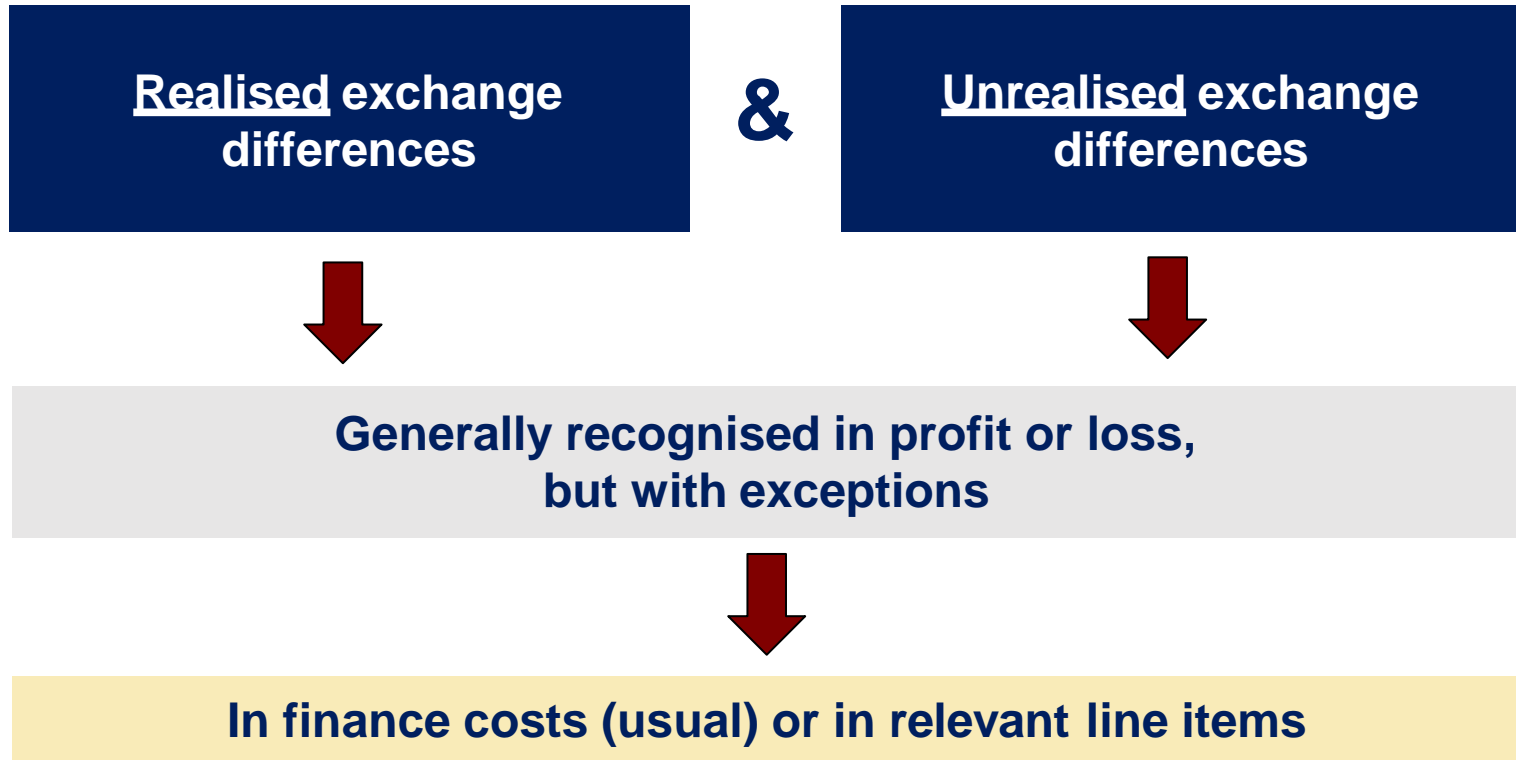
Examples

- Fixed assets
- Inventories
- Investment in equity shares

Re-translation to reporting currency



Monetary items: Exchange differences



Option to capitalise exchange differences on long-term foreign currency monetary items incurred for acquisition of fixed assets and to amortise exchange differences on other long-term foreign currency monetary items over life of such items but not beyond stipulated date

Example 1

- Although intra-group balances are eliminated on consolidation, any related foreign exchange gains or losses will not be eliminated.
- This is because the group has a real exposure to a foreign currency because one of the entities will need to obtain or sell foreign currency to settle the obligation or realise the proceeds received.



Foreign currency financial statements

Foreign operation

Foreign operation

- **Subsidiary, associate, joint venture or branch of a reporting entity**
- **the activities of which are based or conducted**
- **in a country or currency**
- **other than those of the reporting entity**

Integral

Non-integral

Classification of foreign operations

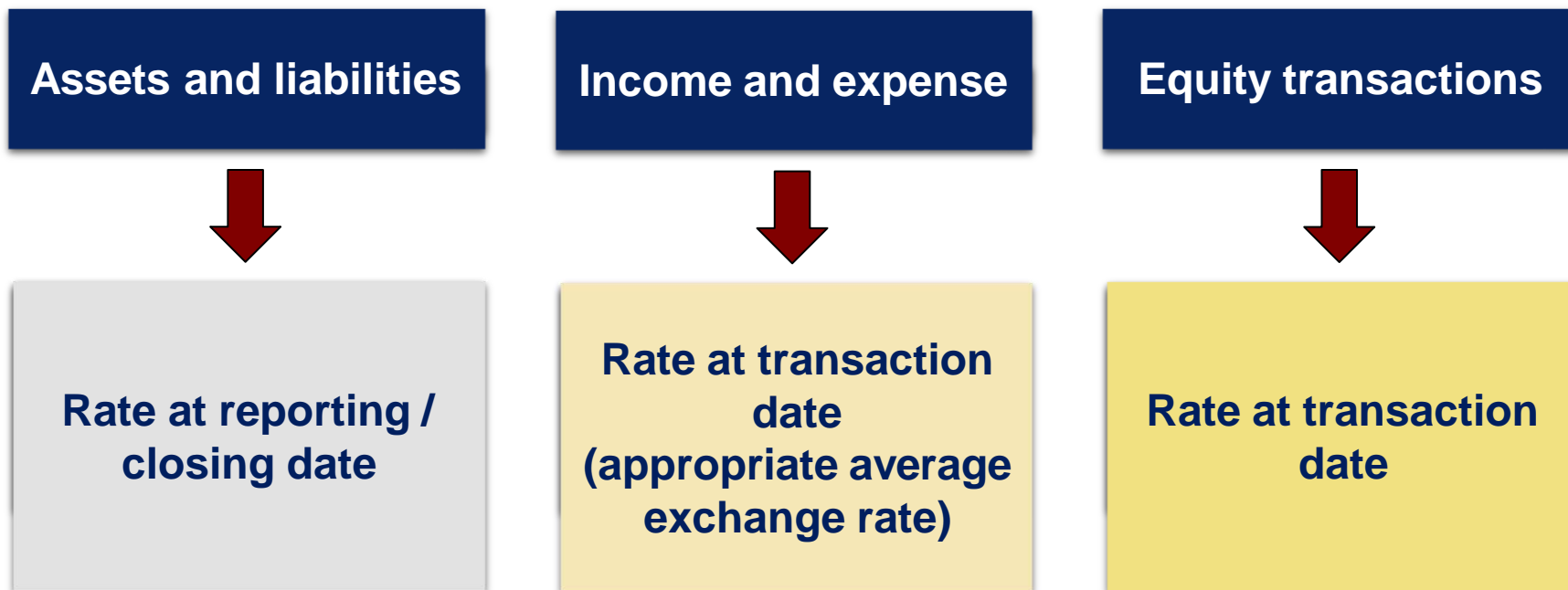
Indicators of non-integral operation

- Activities are conducted with significant degree of autonomy
- Transactions with the reporting enterprise are not a high proportion of the foreign operation's activities
- The activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise
- Expenses are primarily paid or settled in the local currency rather than in the reporting currency
- Foreign operation's sales are mainly in currencies other than the reporting currency
- Cash flows of the reporting enterprise are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation?
- Currency of country whose competitive forces / regulation mainly determine sale prices of its goods and services
- There is an active local sales market for the foreign operation's products, although there also might be significant amounts of exports.

Translation to presentation currency – Integral

Same principles relating to accounting for transactions in foreign currencies

Translation to presentation currency – Non-integral



Exchange differences recognised in separate component of equity i.e., Foreign Currency Translation Reserve (FCTR)

Example 2

ABC has a reporting currency of USD and needs to translate its financial statements into the presentation currency of PQR (EUR).

The following is the Balance sheet of ABC prior to translation:

	<u>USD</u>	<u>EUR</u>
Property, plant and equipment	50,000	
Receivables	<u>935,000</u>	
Total assets	<u>985,000</u>	
Issued capital	50,000	30,055
Opening retained earnings	28,000	15,274
Profit for the year	20,000	
Long Term Liability	840,000	
Accounts payable	<u>47,000</u>	
Total equity and liabilities	<u>985,000</u>	

Example 2 continued

Additional information:

Relevant exchange rates are:

Rate at beginning of the year	EUR 1 = USD 1.22
Average rate for the year	EUR 1 = USD 1.175
Rate at end of the year	EUR 1 = USD 1.13

Required

Translate the balance sheet of ABC into EUR ready for consolidation by PQR. (Share capital and opening retained earnings have been pre-populated.)

Solution

Translation of the financial statements

	<u>USD</u>	Rate	<u>EUR</u>
Property, plant and equipment	50,000	1.13	44,248
Receivables	<u>935,000</u>	1.13	<u>827,434</u>
Total assets	<u>985,000</u>		<u>871,682</u>
Issued capital	50,000	-	30,055
Opening retained earnings	28,000	-	15,274
Profit for the year	20,000	1.175	17,021
Long Term Liability	840,000	1.13	743,363
Accounts payable	<u>47,000</u>	1.13	<u>41,593</u>
Total equity and liabilities	<u>985,000</u>		847,306
FCTR			<u>24,376</u>
Total equity and liabilities			<u>871,682</u>

Q & A session





AS 28

Impairment of Assets

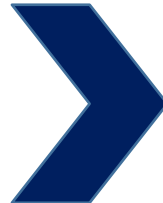
Core principle

Core principle of AS 28:

Entity's assets shall not be carried at an amount more than their recoverable amount

Asset is impaired when:

**Carrying amount of an
asset**



**Recoverable amount of an
asset**

Indicators of impairment

External

- Significant decline in the market value of an asset
- An adverse effect on the entity due to technological, market, economic or legal environment
- Market interest rates of return on investments have increased affecting the discount rate
- The carrying amount of the net assets > market capitalisation.

List is illustrative
and not exhaustive

Internal

- Obsolescence or physical damage of an asset.
- Performance of the asset is declining
For e.g.
 - Asset becoming idle
 - Plans to discontinue or restructure the operation
- Cash flows for acquiring or operating or maintaining asset are significantly higher than those originally budgeted
- Actual net cash flows are worse than budgeted

Example 1

A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

How company shall assess the CGUs for impairment testing, if required?

Example 2

PQR Limited has two plants. Plant P, produces raw material that is sold to Plant Q of PQR Limited. The raw material is sold by Plant P to Plant Q at a price that transfers all the margins to Plant P. 55% of the Plant P's production is sold to Plant Q and 45% is sold to external customers outside PQR Limited. 85% of Q's production is sold to external customers of the PQR.

The issue is to determine the CGUs for Plant P and Q in two scenarios mentioned below:

- Plant P could sell its production in an active market instead of to Plant Q.
- No active market for the production of Plant P.

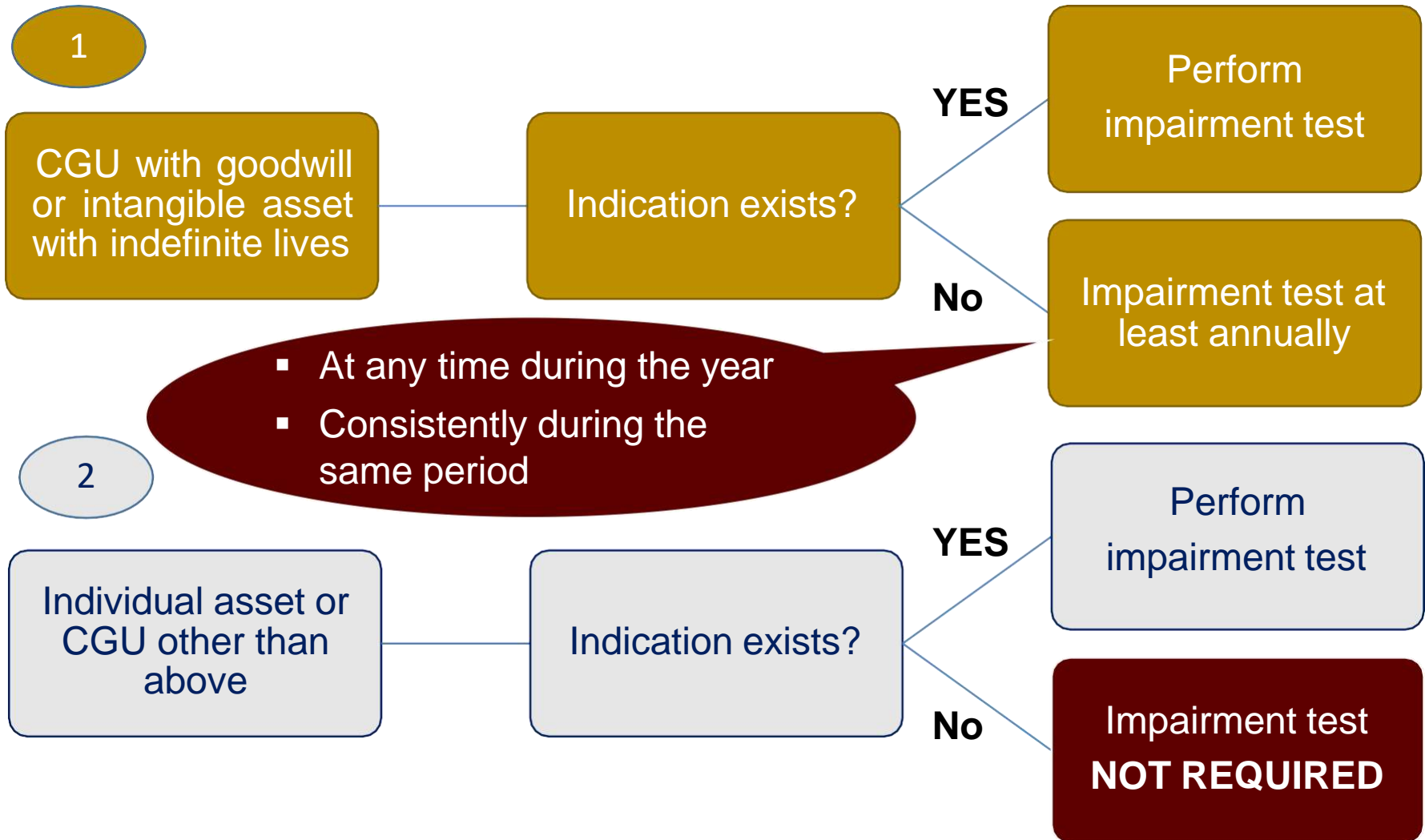
Example 3

An entity is closing a division after the year end. No provision has been made for redundancies at the year end, because the announcement of the closure was not made until after the year end. However, the entity is looking at impairment of the division's assets. Out of total property, plant and equipment, the plant and equipment are likely to be impaired as the recoverable amount is expected to be lower than the carrying amount, however, the property is expected to be sold at a profit.

In determining the charge for impairment at the year end, does the entity consider the total assets of the division including the “property” as one CGU or look at individual assets?

The profit expected to be made on the property is large enough to offset the impairment on the plant.

Frequency of impairment testing



Example 4

An entity is in the automobile component supply business. It has a 31 December year end. The entity generally performs its annual impairment review during the month of September. During the year 2014 as well entity carried out its impairment review exercise in September in line with the budgeted information. However, in October 2014, two major customers announced a shut down of their sites for a prolonged period.

How entity should use this information?

Recoverable value

Impairment loss = Carrying amount - Recoverable amount

Recoverable amount is
higher of:

Asset's net selling price

OR

Value in use

- It is not always necessary to determine both an asset's net selling price and its value in use.
- If either of the amount exceeds carrying amount, asset is not impaired.

Example 5

XYZ Limited acquired group of subsidiaries (A, B and C) few years back. At the current year end here is an indicator that one subsidiary, entity A may be impaired. Entity A is a cash-generating unit and entity A and B falls under one group of CGU.

(INR in million)

Particulars	A	B	Goodwill	Total
Net assets of the division	220	110	80	390
Value in use	200	180		380

Calculate impairment loss and carrying amounts when:

1. Goodwill has been allocated to individual CGU, allocable goodwill is INR 40 m

Solution - Goodwill allocated to individual CGU

Calculation of impairment loss of:

(INR in million)

Particulars	Entity A
Carrying amount (Net assets)	220
Goodwill	40
Carrying value along with goodwill	260
Value in use	200
Impairment loss	60

Where, goodwill acquired in business combination is allocated to the individual CGU, there is an impairment loss of INR 60 m in entity A, reducing the carrying value of its net assets and goodwill to INR 200 m. The impairment loss is attributed INR 40 m to goodwill and INR 20 m to other assets on a pro rata basis to their carrying amounts.

Q & A session





Thank You

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