AS-15
EMPLOYEE BENEFITS

Employer = ER
Employee = EE

BASICS

Kiski Books?

✓ Employer

✗ Employee benefit plan

Employee kaun?

1. full time
2. part time
3. permanent
4. casual
5. temporary
6. WTD
7. other mgt personnel

Employer Employee relationship

✓ Contract OF service
(obliged to obey orders in work + Mode & Manner)

✗ Contract FOR services
(Limited direction & control)
Eg Professional / technical services

Kiski Accounting?

✓ Employee benefits

✗ Share based payments

Employee Benefits?

Consideration by ER in exchange for EE services

Benefits kaise diye?

Cash or kind

Benefits Provided to?

- Employees
- Spouses
- children
- other dependants

Payment to?

These 4

OR

- legal heirs
- nominees
- trust
- insurance co etc

Reasons for Payment?

- Formal Agreement - Contract
- Legislative Requirement - Law
- Informal practices- business practice

Informal Practices

When does it give rise to obligation?
When ER has no realistic alternative but to pay benefits.
Consider
- Historical Pattern of granting benefits
- Expectation created among employees
- Impact on ER-EE relationship if benefit withdrawn

to determine whether informal practice give rise to benefit

Eg - Practice of making a lumpsum payment on occasion of festival

(simply put,
for eg , Diwali bonus dene ki Practice hai entity me then obligation hai)

Objective of AS-15



Jab service render tab J/E pass in ER books chahe payment next month/ next year / 5 yrs later

Expense .... Dr
To Liability

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BASICS SUMMARY

YE RISHTA KYA KEHLATA HAI ?

ER- EE KA



kaam aaj kar rhi hai

uske badle mein kuch milega

kyun?

Contract /Law /

humare yaha esa chalta hai



Sara din kaam krti hai/

kuch ghante aati hai

Ise aaj hi record krlo ER ki books me

Expense .... Dr

To Liability



next mth/ next year/ 5 yrs later















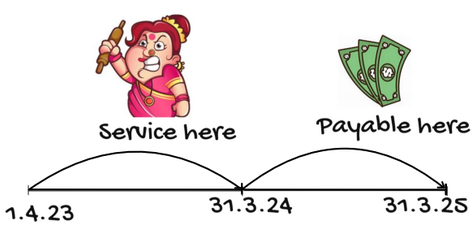
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TYPES OF EMPLOYEE BENEFITS

2023-24 = PERIOD IN WHICH EMPLOYEE RENDERS THE SERVICE

SHORT TERM EMPLOYEE BENEFITS

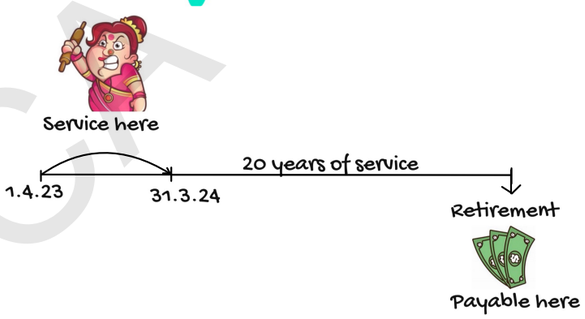
Service Render? 2023-24
Payable? Upto 31.3.2025
(within 12 months after
the end of 2023-24)
Eg-
1. Salary,
2. Short term compensated absence
3. Profit sharing & bonuses
(payable within 12 mths of Y.E.)



POST EMPLOYMENT BENEFITS

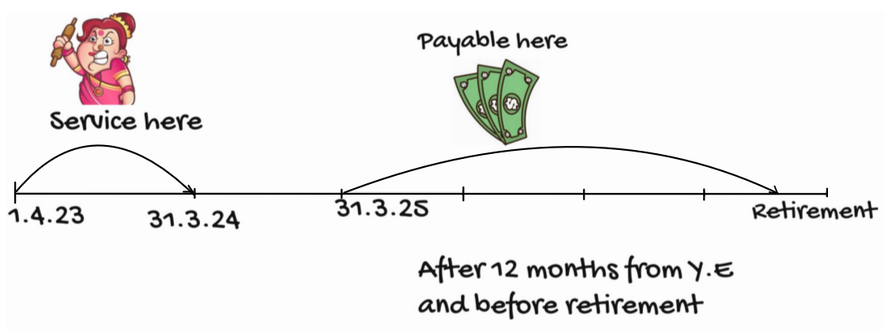
Service Render? 2023-24
Payable?
After completion of employment

Eg- Gratuity,
Pension, Post Employment medical care



OTHER LONG TERM EMPLOYEE BENEFITS

Service Render ? 2023-24
Payable? After 31.3.2025
(not wholly within 12 mths after end of
2023-24) & before retirement
Eg-
1. Long service leave, sabbatical leave
2. Jubilee, Long service award,
3. L.T. disability benefit
4. Profit sharing & bonuses
not within 12 mths of 2023-24



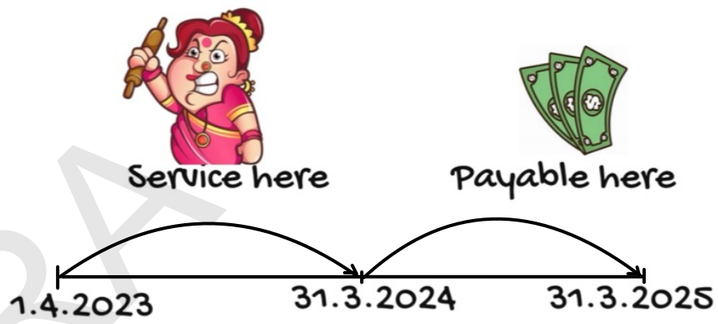
TERMINATION BENEFITS

Payable as a result of
1) ER's decision to terminate EE's
employment before normal retirement
date
OR
2) EE's decision to accept voluntary
redundancy in exchange of those
benefits
Eg - VRS

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SHORT TERM EMPLOYEE BENEFITS

NO DISCOUNTING



TREATMENT

Recognise Expense & Liability for accrued exp

A. Capitalise the amount ,
if allowed by another AS (AS 10, AS 26 etc)
B. If Excess paid -> Book Prepaid Expense

Eg, Service Render- FY 2023-24
Salary paid 200K ,
Salary O/S 50K on 31.3.2024

Expense for FY 23-24 = 250K &
Liability on 31.3.24 = 50K

Employee benefit exp Dr 250K
To Bank 200K
To Salary Payable 50K

Send to P&L

SHORT TERM COMPENSATED ABSENCES

Accumulating

Unutilised leaves in CY can be carried forward to next year

Vesting

Can be encashed at the time of leaving entity

Non Vesting

Cannot be encashed at the time of leaving

Non Accumulating

Unutilised leaves in CY will lapse

No further a/cing treatment

Book Expected cost as expense & Liability
Expected cost? -> additional amount ER expects to pay as a result of the unused entitlement that has accumulated at Y.E.

PROFIT SHARING & BONUS PLAN

Service Render FY 2023-24
Bonus payable for 23-24 on 30.06.24

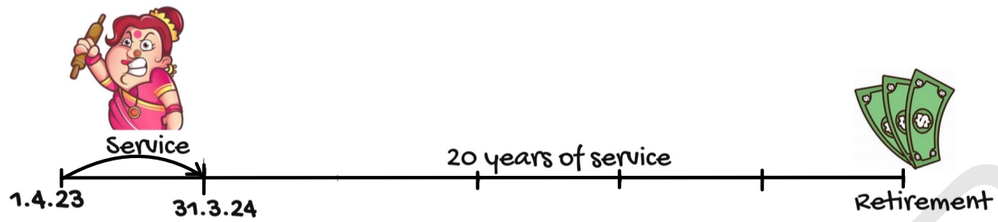
Expense relates to FY 2023-24
Book Expense & Liability for bonus on 31.3.2024

Measurement->
Reflect possibility of some employees leaving without receiving a bonus.

No legal obligation but
Practice of paying bonus ->
ER has no realistic alternative but to pay bonus ->
Recognise expense & liability

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POST EMPLOYMENT BENEFITS



TYPES

- DEFINED CONTRIBUTION PLAN (DCP)
- DEFINED BENEFIT PLAN (DBP)

DEFINED BENEFIT PLAN

ER SAYS I WILL PAY YOU "X" AMOUNT ON RETIREMENT

PART 1 DEFINED BENEFIT OBLIGATION



ACTUARIAL ASSUMPTIONS

Actuary will tell us Assumptions on the basis of which we measure obligation

DEMOGRAPHIC ASSUMPTIONS

- Employee turnover
- Early retirement
- Mortality rate

FINANCIAL ASSUMPTIONS

- Discount rate
- Future Salary levels
- Inflation rates



PROJECTED UNIT CREDIT METHOD (PUCM)

Step 1. Estimate total benefit payable i.e.DBO
Step 2 . Attribute total benefit to years of service
Step 3 . Calculate Current Service Cost (Table 1)
Step 4 . Calculate Interest Cost (Table 2)
Step 5 . Calculate PV of DBO as at B/S date (Table 2)

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ACTUARIAL LOSS/ GAIN

↑ or ↓ In PV of DBO due to change in actuarial asumption

Eg- Old Assumption = Salary increment assumed 10% ,New Assumption = Salary increment assumed 15%



ACTUARIAL LOSS

Actuarial Loss .. Dr
To DBO Payable

ACTUARIAL GAIN

DBO Payable .. Dr
To Actuarial Gain

Recognise immediately in Statement of P&L as income / expense. Cannot be deferred to future periods

PAST SERVICE COST (PSC)



↑ In PV of DBO due to change in plan.

Eg - Old plan = 50% of final salary for each year of service , New plan = 60% of final salary for each year

Amortised over a period of time on a particular basis . See eg below

Beg of Y- 4

PV of DBO per books = 21lacs

PV of DBO should be 25 lacs after plan change

PSC ...Dr 4lacs
To DBO payable 4 lacs

End of Y- 4

Amortized PSC = 2 lacs

P&L ...Dr 2lacs
To PSC 2lacs

Send unamortised PSC to B/S

Liabilities		Assets
PV of DBO	35lacs	
(-) Unamortised PSC	(2 lacs)	

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CURTAILMENT



In PV of DBO due to events such as discontinuance of segment , termination of plan etc

Reduce PV of DBO & Reduce Unamortised PSC by same % as PV of DBO in case of proportional decline
Eg - BEfore curtailment - PV of DBO = 6000, Unamortised PSC = 180, Plan assets= 5,100. Plan curtailed by 10%

Curtailment without settlement

DBO Payable	Dr	6,000 X 10%
To Unamortized PSC		180 X 10%
To Gain on Curtailment		B/F

B/S after curtailment

Liabilities	
PV of DBO	
6,000 X 90%	5,400
(-) FV of Plan Assets	(5,100)
(-) Unamortized PSC	(162)
180X 90%	

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PART 2 PLAN ASSETS



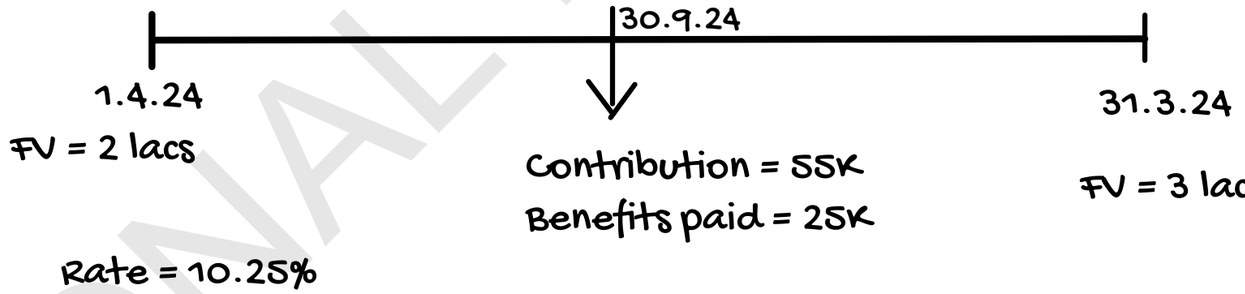
ACTUAL RETURN

Opening Fair Value	= XXX
(+) Contributions	= XXX
(-) Benefits paid	= (XXX)
(A)	XXX
Closing Fair value (B)	= XXX
Actual Return (B- A)	= XXX

EXPECTED RETURN

ASSUMPTIONS NEEDED

1. Contributions & Benefits paid -> middle of year
2. Expected Rate of Return ?
   Effective Rate of return when compounding is done half yearly.



Step 1- Find Half year rate (R) from Effective Rate (E)

$\sqrt{1+E} - 1 = \sqrt{1 + 0.1025} - 1$ i.e R = 5%

Step 2 - Return on Opening FV at 10.25% i.e. 2lacs X 10.25% = 21,000

STEP 3 - Net Balance of Contribution & Benefits paid i.e 55K - 25K = 30K

Step 4 - Return on 30K @ 5% i.e 1,500

Step 5 - Total Return = Step 2 + STep 4 i.e 21,000 + 1,500 = 22,500

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SOME EXTRA POINTS

DCP

ER obligation limited to amt of contribution to fund

Kitne Benefits milenge to EE
ER contribution + EE contribution +
Investment Returns on contributions

Risks fall on EE

ER ne contribute kardia then no further liability

No discounting -> Every period contribute kardia and a/c kia just like salary expense

Expense Dr
To Liability (if unpaid)

Eg - Provident Fund

DBP

ER obligation to provide agreed benefits

Kitne Benefits milenge to EE
Jitna amount agreed hai
like a) 10 lac on retirement
b) 10% of last drawn salary for each year

Risks fall on ER

Plan Assets me invest karne se liability to pay benefit nahi khatam hogi

Yes discounting because aaj expense book karenge and pay at completion of employment
-> DBO & Plan asset a/cing

Eg - Gratuity

TYPES OF RISKS

Actuarial risk = Difference b/w Expected benefits & Actual Benefits

Investment risk = Assets invested -> insufficient to pay expected benefits

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SOME EXTRA POINTS

TYPES OF DCP & DBP

MULTI EMPLOYER PLANS

A. Pool assets of > 1 Enterprises
B. Enterprises not under common control
C. Benefits to EE of > 1 Enterprise
D. Contribution & benefit levels->
Determined without regard to
identity of ER who employs the EE

STATE PLANS

Established by legislation
Cover all enterprises
Operated by govts

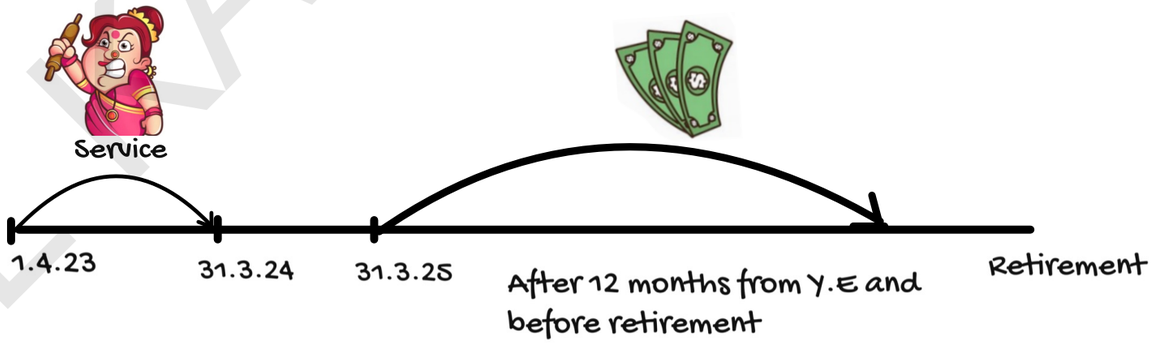
INSURED BENEFITS

ER pays insurance premiums
For fundings Post Employment benefit plans
Can be DCP/ DBP depending on ER's obligation

OTHER TYPES OF BENEFITS

OTHER LONG TERM BENEFITS

Definition & Egs already covered



TERMINATION BENEFITS

Definition & Egs already covered
ER gets obligation on a/c of termination & not due to EE service

A/cing treatment -> Book expense & liability for termination benefits
-> Immediately expensed off in P&L

Amount? -> Payable immediately -> No discounting required
-> Payable 12 mths after B/S date -> Bring to PV

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