IND AS ON LIABILITIES OF THE FINANCIAL STATEMENTS

UNIT 1:
INDIAN ACCOUNTING STANDARD 19: EMPLOYEE BENEFITS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the objective and scope of Ind AS 19
- Define the terms relating to employee benefits, classification of plans, net defined benefit liability (asset) and defined benefit cost
- Examine the four categories of employee benefits (short-term, post-employment, other long-term and termination benefits)
- Recognise and measure all short-term employee benefits, short-term paid absences and account for profit sharing and bonus plans
- Make distinction between defined contribution plans and defined benefit plans
- Account for multiemployer plans, state plans and insured benefits
- Recognise and measure defined benefit plans that share risks between entities under common control
- Recognise, measure and disclose defined contribution plans
Account for the constructive obligation plans under defined benefit plan

Apply actuarial valuations in recognition and measurement of defined benefit plans

Remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions

Determining past service cost, or a gain or loss on settlement,

Recognise the components of defined benefit cost

Present and disclose employee benefits in the financial statements as per Ind AS 19
UNIT OVERVIEW

Accounting Standard (AS) 15

Definitions relating to

Employee benefits
Classification of plans
Net defined benefit liability
Defined benefit costs

Post-employment Benefits

Short-term Employee Benefits

Recognition
Measurement
Disclosure

Defined Contribution Plans

Defined Benefit Plans

Present Value of Defined Benefit Obligations and Current Service Cost
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Other Employee Benefits

Multi-employer Plans
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Recognition
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Recognition and Measurement:

Curtailments And Settlements

Presentation
Disclosure

Termination Benefits

Recognition
Measurement
Disclosure

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1.1 OBJECTIVE OF IND AS 19

- The objective of this standard is to prescribe the accounting and disclosure for employee benefits.
- Ind AS 19 requires an entity to recognise:
  (a) a liability for advance services received from an employee; and
  (b) an expense for consumption of economic benefits raised from the service provided by an employee in exchange for employee benefits.

1.2 SCOPE

- This Standard shall be applied by an employer in accounting for all employee benefits other than benefits to which Ind AS 102, Share-based Payment, is applicable.
- This Standard does not deal with reporting by employee benefit plans.
- Employee benefits are required to be paid under formal plans/agreements between an entity and its individual employees/group of employees/their representatives, as required by law or as required by any type of industry arrangements an entity is required to contribute to any nation/state/industry or other multi-employer plans; or where due to some change in informal practice entity is required to pay due to constructive obligation.

1.3 EMPLOYEE BENEFITS

**Employee benefits include:**

(i) short employee benefits,
(ii) post-employment benefits,
(iii) other long term employee benefits and
(iv) termination benefits.

All these categories have different characteristics and hence the Standard has specified separate requirements for each such category.
Employee benefits include benefits provided
   - either to employees
   - or to their dependants
   - or beneficiaries

Employee benefits may be settled by payments (or the provision of goods or services) made
   - either directly to the employees,
   - to their spouses,
   - to children or
   - to other dependants or
   - to others, such as insurance companies.

An employee may provide services to an entity on a
   - full-time,
   - part-time,
   - permanent,
   - casual or
   - temporary basis.

Note: For the purpose of this Standard, employees include directors and other management personnel.

1.4 DEFINITIONS

1.4.1 Definitions of employee benefits

1. **Employee Benefits**: All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.
2. **Short-term Employee Benefits**: Employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Example: Wages, salaries, paid annual leave.

3. **Post-employment Benefits**: Employee benefits (other than termination benefits benefits and short-term employee benefits) that are payable after the completion of employment.

Example: Pensions, lumpsum payments on retirement.

4. **Other long-term employee benefits** are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

Example: Long-term paid absences such as long-service leave or sabbatical leave, jubilee or other long-service benefits.

5. **Termination benefits** are employee benefits provided in exchange for the termination of an employee’s employment as a result of either:

   (a) an entity’s decision to terminate an employee’s employment before the normal retirement date; or

   (b) an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

### 1.4.2 Definitions relating to classification of plans

1. **Post-employment Benefit Plans**: These plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

   Under these plans the benefits given to employees are after employment like gratuity, pension, provident fund etc.

   Note: Defined contribution plans and Defined Benefit Plans are two categories of post-employment benefits plans.

2. **Defined Contribution Plans**: They are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

   In such kind of plans the contribution is defined which means it is fixed and known to the entity.

   Example: Provident Fund contribution by the employer.
3. **Defined Benefit Plans**: Post-employment benefit plans other than defined contribution plans.

   **Example**: Gratuity.

4. **Multi-employer Plans**: Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:
   
   (a) pool the assets contributed by various entities that are not under common control; and
   
   (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.

1.4.3 **Definitions relating to the net defined benefit liability (asset)**

1. **Net defined benefit liability (asset)**: The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

2. **Deficit or surplus**:
   
   (a) the present value of the defined benefit obligation less
   
   (b) the fair value of plan assets (if any).

3. **Asset ceiling**: The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

4. **Present Value of a Defined Benefit Obligation**: Present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. Plan assets comprise:
   
   (a) assets held by a long-term employee benefit fund; and

   (b) qualifying insurance policies.

5. **Assets Held by a Long-term Employee Benefit Fund**: Assets (other than non-transferable financial instruments issued by the reporting entity) that:
   
   (a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and

   (b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:

      (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

      (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.
6. **Qualifying Insurance Policy:** Insurance policy issued by an insurer that is not a related party (as defined in Ind AS 24, *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

(a) can be used only to pay or fund employee benefits under a defined benefit plan; and

(b) are not available to the reporting entity’s own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:

(i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or

(ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

7. **Fair Value:** The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (Ind AS 113, *Fair Value Measurement*.)

1.4.4 **Definitions relating to defined benefit cost**

1. **Service cost** comprises:

(a) *Current service cost*, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

(b) *Past service cost*, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and

(c) any gain or loss on settlement.

2. **Net interest on the net defined benefit liability (asset):** The change during the period in the net defined benefit liability (asset) that arises from the passage of time.

3. **Remeasurements of the net defined benefit liability (asset)** comprise:

(a) actuarial gains and losses;

(b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).
4. **Actuarial gains and losses** are changes in the present value of the defined benefit obligation resulting from:

   (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and

   (b) the effects of changes in actuarial assumptions.

5. **Return on plan assets:** Interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

   (a) any costs of managing plan assets; and

   (b) any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

6. **Settlement:** A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

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### 1.5 SHORT-TERM EMPLOYEE BENEFITS

- Short-term employee benefits include items expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services.

- It includes

  (a) wages, salaries and social security contributions;

  (b) paid annual leave and paid sick leave;

  (c) profit-sharing and bonuses; and

  (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

- Reclassification of a short-term employee benefit is not required if the entity’s expectations of the timing of settlement of such benefits changes temporarily.

- Reclassification may be considered-
  - if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or
  - if a change in expectations of the timing of settlement is not temporary.
1.5.1 Recognition and Measurement of Short-term Benefits

Accounting for short term benefits has two characteristics:

(a) measurement of short term benefits are measured on an undiscounted basis; and
(b) it involves no actuarial assumptions to be made, hence there is no accounting required for any actuarial gain/loss.

The undiscounted amount of short-term employee benefits expected to be paid in exchange for that service shall be recognised:

(a) as a liability (accrued expense), after deducting any amount already paid.

If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense if not forms part of the cost of an asset as per other Ind AS 2 and Ind AS 16.

Note: Recognition of short term employee benefit is in the form of either paid expenses or profit sharing or bonus plans

1.5.2 Short-term paid absences

An employer normally compensates an employee on account of his absence either by granting privilege leave (vacation leave), or sick leave, or maternity or paternity leave etc. These compensated balances fall under two categories and recognize the expected cost in the form of paid absences as follows:

(a) **Accumulating** paid absences - recognized when the employees render service that increases their entitlement to future paid absences; and

(b) **Non-accumulating** paid absences - recognized when the absences occur.

1.5.2.1 Accumulating Paid Absences

- These are the absences that are carried forward and can be used in future periods if the employee is not able to use them in current reporting period of the employer. They can be
either:

(i) **Vesting:** In this case, employees are entitled to a cash-payment for the unutilised entitlement at the time of leaving the entity.

(ii) **Non-vesting:** In this case, employees are not entitled to a cash payment for unused entitlement on leaving.

- The employer is under an obligation to pay this as employees render service that increases their entitlement to future compensated absences.
- This obligation is recognised even if the compensated absences are non-vesting. However, in case an employee leaves the entity before they use an accumulated non-vesting entitlement will affect the measurement of this obligation.
- An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

**Illustration 1**

*Sunderam Pvt. Ltd. has a headcount of 100 employees in 20X0-20X1. As per the employee policy, the employees are entitled for 30 annual leaves out of which 10 may be carried forward to the next current year, 10 sick leaves out of which 2 may be carried forward as paid leave. At March 31, 20X1, 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 20X0-20X1.*

**Solution**

The entity will recognise liability in the books equal to 150 (30 x 5) days of annual leave and 10 (10 x 1) days of sick leave.

**1.5.2.2 Non-accumulating Paid Absences:**

- These are the absences that do not carry forward and they will lapse if the current period’s entitlement is not used in full by the employee and
- This also do not entitle employees to a cash payment for unused entitlement on leaving the entity.

**Example:** Sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave and compensated absences for jury service or military service.

- An entity shall recognise no liability or expense as the employee service does not increase the amount of the benefit.
1.5.3 Profit-sharing and Bonus Plans

- Expected costs of profit-sharing and bonus plans shall be recognised when:
  
  (a) the entity has a present legal or constructive obligation to make such payments as a result of past events; and
  
  (b) a reliable estimate of the obligation can be made by the entity.

- A present obligation exists when, and only when, an entity has no realistic alternative but to make the payments in lieu of profits and bonuses to its employees.

- An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the entity’s owners.

- Therefore, an entity recognises the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

Illustration 2

*Laxmi Mills* is a profit making entity and has reported ₹200 crore in the financial year 20X1-20X2. According to its profit-sharing plan, it distributes and pays 5% as its portion of profit to its employees if they complete 1 year with the organisation. As under these kinds of plans, an entity is under an obligation to pay if the employees complete a specified period with the organisation. Laxmi mills has estimated that due to turnover in the organisation, the estimated pay-out would be around 4.5%. Compute the liability and expense of the company under this plan.

Solution

The company shall make a provision for liability and recognise the same amount as an expense of the amount of ₹9 crores in 20X1-20X2 (4.5% of ₹200 crores).

- If profit-sharing and bonus payments are not settled wholly before the twelve months after the end of the reporting period in which the employees render the related service, those payments are considered as other long-term employee benefits.

1.5.4 Disclosure

- This Standard does not require specific disclosures about short-term employee benefits

- However, other Ind AS may require disclosures.

Examples:

- Ind AS 24 requires disclosures about employee benefits for key management personnel.

- Ind AS 1, Presentation of Financial Statements, requires disclosure of employee benefits expense.
1.6 POST-EMPLOYMENT BENEFITS

- Post-employment benefits include:
  
  (a) Retirement benefits such as pensions and lump sum payments on retirement; and
  
  (b) Other post-employment benefit plans such as post-employment life insurance and post-employment medical care.
Depending upon the economic substance of the plan which is derived from its principal terms and conditions, post-employment benefit plans are classified as

(i) either defined contribution plans
(ii) or defined benefit plans.

### 1.6.1 Classification of Post-employment Benefit Plans into Defined Contribution Plan vs Defined Benefit Plans

#### 1.6.1.1 Under defined contribution plans

(a) entity agrees to contribute a limited amount to the fund as its legal or constructive obligation.

(b) Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and

(c) as a result of this, actuarial risk (which means that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) falls on the employee and not on the entity like in defined benefit plan.

**Exception:**

There are cases where an entity’s obligation is not limited to the amount that it agrees to contribute to the fund as the entity has a legal or constructive obligation. Examples of such kind of practice are listed below:

(a) a plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

(b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.
1.6.1.2 Under defined benefit plans

(a) the entity’s obligation is to provide the agreed benefits to current and former employees; and

(b) actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity and not on the employee like in the case of defined contribution plan.

(c) Thus, if actuarial or investment experience are worse than expected, the entity’s obligation may be increased for providing to the employees.

The above differences can be summarized as follows:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Defined Contribution Plans</th>
<th>Defined Benefit Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Amount contributed</td>
<td>The entity agrees to contribute a limited amount to the fund as its legal or constructive obligation.</td>
<td>The entity’s obligation is to provide the agreed benefits to current and former employees.</td>
</tr>
<tr>
<td>2.</td>
<td>Risk bearer</td>
<td>Actuarial risk and investment risk fall on the employee and not on the entity.</td>
<td>Actuarial risk and investment risk fall on the entity and not on the employee.</td>
</tr>
<tr>
<td>3.</td>
<td>Change in the obligation</td>
<td>Generally, no change in the contribution of an entity is made except certain conditions.</td>
<td>If actuarial or investment experience are worse than expected, the entity’s obligation may be increased for providing to the employees.</td>
</tr>
<tr>
<td>4.</td>
<td>Determination of the amount of post-employment benefit</td>
<td>The amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity and employee as well.</td>
<td>Pre-determined / Agreed post-employment benefits are received by the employee.</td>
</tr>
</tbody>
</table>

1.6.2 Multi-employer Plans

- An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).
In the case of a multi-employer defined benefit plan, normally

- the amount of contributions is decided keeping in mind the amount of benefits that an entity is required to pay in the same period and
- the future benefits that an entity gets during the current period will be paid out of future contributions.
- Employers have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned.
- Employee benefits are determined by the length of their service in the entity as a future amount which is required to be paid to them. Such a plan would create actuarial risk to the entity (i.e., if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits).

In case the multi-employer plan is a defined benefit plan, an entity shall:

(a) account for its proportionate share of the
   (i) defined benefit obligation,
   (ii) plan assets and
   (iii) cost associated with the plan
   in the same way as for any other defined benefit plan; and

(b) disclose the information required.

When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:

(a) account for the plan as if it were a defined contribution plan;

(b) disclose:
   (i) the fact that the plan is a defined benefit plan; and
   (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan;
   (iii) the expected contributions to the plan for the next annual reporting period; and

(c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
   (i) any available information about that surplus or deficit;
   (ii) the basis used to determine that surplus or deficit; and
   (iii) the implications, if any, for the entity.
The reasons that an entity is not able to term its plan as a defined benefit plan and has to account for a plan as multi-employer defined contribution plan include

- an entity not having access to information about the plan and
- the plan exposes the entity to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan shall

- recognise the asset or liability that arises from the contractual agreement and
- the resulting income or expense in profit or loss.

In determining when to recognise, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

**Illustration 3**

Paras Pvt. Ltd. does not have sufficient information to about a defined benefit plan and thus accounts for the plan as if it were defined contribution plan. In this kind of plan, there is a contractual agreement between Paras Pvt. Ltd. and its participants to share the deficit amongst all. This kind of funding valuation shows a deficit of ₹500 million in the plan. The plan has agreed under contract a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next 10 years. The entity’s total contributions under the contract are ₹30 million.

**Solution**

As per Ind AS 19, Paras Pvt. Ltd. should recognise a liability for the contributions adjusted for the time value of money and an equal expense in profit or loss.

1.6.3 Defined Benefit Plans that Share Risks between Various Entities under Common Control

- Such plans are not multi-employer plans.

  **Example:** A parent and its subsidiaries

- An entity who is participating in such a plan shall obtain information about the plan as a whole on the basis of assumptions that also apply to whole plan.
The entity shall, in its separate or individual financial statements, recognise the net defined benefit cost so charged if there is a contractual agreement or stated policy for charging the net defined benefit cost for the whole plan to individual group entities.

In case there is no such agreement or policy, the net defined benefit cost shall be recognised in the separate or individual financial statements of the group entity that is legally the sponsoring employer for the plan.

The other group entities shall, in their separate or individual financial statements, recognise a cost equal to their contribution payable for the period.

This kind of participation in such a plan is a related party transaction for each individual group entity. Thus, the following disclosures are required by an entity in its separate or individual financial statements:

(a) the contractual agreement or stated policy according to which net defined benefit cost has been charged by the individual entity or the fact that there is no such policy.
(b) the policy for determining the contribution to be paid by the entity.
(c) if the entity accounts for an allocation of the net defined benefit cost, then disclosure has to be made for information about the whole plan.
(d) if the entity accounts for the contribution payable for the period, the information about the plan also needs to be disclosed for the plan as a whole.

1.6.4 State Plans

A state plan is accounted for in the same way as multi-employer plan.

State plans are normally established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity.

There are some of the plans which are established by an entity provide both compulsory benefits, which substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such kinds of plans are not state plans.

State plans are characterised as defined benefit or defined contribution in nature based on the entity’s obligation under the plan.

Normally the state plans are funded on a pay-as-you-go basis which implies that contributions have been set at a level that is expected to be sufficient to pay the required benefits falling due in the same period. In such kind of a case, future benefits earned during the current period will be paid out of future contributions.
In most of the state plans, the entity has no legal or constructive obligation to pay those future benefits as its only obligation as an entity is to pay the contributions as they fall due and in case the entity does not employ members of the state plan, it will have no obligation to pay the benefits earned by its own employees in previous years. For this reason, state plans are normally defined contribution plans.

### 1.6.5 Insured Benefits

- An entity normally pays insurance premiums for funding a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan.

- The entity shall treat the plan as a defined benefit plan in case an entity has (either directly, or indirectly through the plan) a legal or constructive obligation, to either:
  
  a. pay the employee benefits directly when they fall due; or
  
  b. pay further amounts if the insurer does not pay all future employee benefits which are relating to employee service in the current and prior periods.

- Where an entity is funding a post-employment benefit obligation and contributes to an insurance policy under which the entity retains a legal or constructive obligation, in this case the payment of the premiums does not amount to a defined contribution arrangement. This can be either directly or indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer. Hence, it follows that the entity will carry the following accounting treatment for:

  a. accounting for a qualifying insurance policy as a plan asset; and
  
  b. recognises other insurance policies as reimbursement rights.

- The entity has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits where an insurance policy is in the name of a specified plan participant or a group of plan participants and the entity does not have any legal or constructive obligation to cover any loss on the policy.

- The payment of fixed premiums under such kind of arrangement is a settlement of the employee benefit obligation rather than an investment to meet the obligation. Therefore, an entity treats such payments as contributions to a defined contribution plan and hence cannot treat such an obligation as an asset or a liability.

### 1.7 ACCOUNTING FOR DEFINED CONTRIBUTION PLANS

- The reporting entity’s obligation for each period is determined by the amounts to be contributed for that period.

- No actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.

- The obligations are measured on an undiscounted basis.
1.7.1 Recognition and Measurement

In case when an employee renders service to an entity during a period, the entity shall **recognise the contribution payable** to a defined contribution plan in exchange for that service:

(a) as a liability (accrued expense), after deducting any contribution already paid.

   In case the amount of contribution already paid under a defined contribution plan exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, a reduction in future payments or a cash refund; and

(b) as an expense if not included in the cost of an asset as per other Ind AS (for example, according to Ind AS 2 and Ind AS 16).

Where contributions to a defined contribution plan do not fall due wholly before twelve months after the end of the annual reporting period in which the employees render the related service, the contributions shall be discounted using the discount rate as specified in this Standard.

1.7.2 Disclosure

- An entity shall disclose the amount recognised as an expense for defined contribution plans.
- An entity shall disclose information about contributions to defined contribution plans for key management personnel (as per Ind AS 24).

1.8 ACCOUNTING FOR DEFINED BENEFIT PLANS

Accounting for defined benefit plans is complex as:

- actuarial assumptions are required to measure the obligation and the expense
- there is a possibility of recognising actuarial gains and losses
- the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

1.8.1 Recognition and Measurement

- Defined benefit plans can be
  - unfunded or
they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or

fund, that is legally separate from the reporting entity and from which the employee benefits are paid.

The payment of funded benefits when they fall due depends

- on the financial position and the investment performance of the fund; and
- on an entity’s ability (and willingness) to make good any shortfall in the fund’s assets.

Therefore, the entity undertakes actuarial valuations to underwrite the actuarial and investment risks associated with the plan.

Hence, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

1.8.1.1 Steps involved in Accounting by an entity for defined benefit plans

<table>
<thead>
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<th>Step I: Determining the Deficit or Surplus</th>
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<tbody>
<tr>
<td><strong>Determining the deficit or surplus</strong></td>
</tr>
<tr>
<td>• PUCM</td>
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<tr>
<td>• Discounting</td>
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<tr>
<td>• Fair value of plan assets</td>
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Step I: Determining the Deficit or Surplus

This involves:

(a) using actuarial techniques, the projected unit credit method, to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods.

This requires an entity to determine

(i) how much benefit is attributable to the current and prior periods and
(ii) estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit;

(b) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost

(c) deducting the fair value of any plan assets from the present value of the defined benefit obligation.

**Step II: Determining the amount of the net defined benefit liability (asset)**

Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in step I above, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

**Step III: Determining amounts to be recognised in profit or loss:**

(i) current service cost.

(ii) any past service cost and gain or loss on settlement.

(iii) net interest on the net defined benefit liability (asset).

**Step IV: Determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:**

(i) actuarial gains and losses;

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and

(iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

In case an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

An entity shall determine the net defined benefit liability (asset) with sufficient regularity at the end of each reporting period.

**1.8.2 Accounting for the Constructive Obligation**

- Accounting for any constructive obligation will also be done by an entity that arises from the entity’s informal practices and for its legal obligation under the formal terms of a defined benefit plan.

- Constructive obligation arises due to informal practices where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity’s informal practices would cause unacceptable damage to its relationship with employees.
The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Hence, it is usually difficult for an entity to cancel a plan if employees are to be retained. Hence, accounting for post-employment benefits assumes that an entity which is currently promising such benefits will continue to do so over the remaining working lives of employees in the absence of evidence to the contrary.

### 1.8.3 Balance Sheet

- An entity is required to recognise the net defined benefit liability (asset) in the balance sheet.
- When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:
  - the surplus in the defined benefit plan; and
  - the asset ceiling, determined using the discount rate.
- A net defined benefit asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recognised. An entity recognises an asset in such cases because:
  - the entity controls a resource, which is the ability to use the surplus to generate future benefits;
  - that control is a result of past events (contributions paid by the entity and service rendered by the employee); and
  - future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit.
1.9 RECOGNITION AND MEASUREMENT: PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS AND CURRENT SERVICE COST

The cost of a defined benefit plan is influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. Hence, the final cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time.

In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:

(a) apply an actuarial valuation method;
(b) attribute benefit to periods of service; and
(c) make actuarial assumptions.

1.9.1 Actuarial Valuation Method

- Projected Unit Credit Method is used by an entity to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

- The Projected Unit Credit Method (which is also sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) perceives each period of service as which gives rise to an additional unit of benefit entitlement and measures each unit separately to report the final obligation.

- An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

1.9.2 Attributing Benefit to Periods of Service

- An entity shall attribute benefit to periods of service under the plan’s benefit formula, in determining the present value of its defined benefit obligations and the related current service cost.

- However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
  (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
  (b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.
The Projected Unit Credit Method is a methodology which requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations).

An entity will attribute benefit to periods in which the obligation to provide post-employment benefits arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods.

These kind of actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

**Illustration 4**

A defined benefit plan provides a lump-sum benefit of ₹ 200 payable on retirement for each year of service. A benefit of ₹ 200 is attributed to each year. The current service cost is the present value of ₹ 200. The present value of the defined benefit obligation is the present value of ₹ 200, multiplied by the number of years of service up to the end of the reporting period. What is the current service cost?

**Solution**

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested).

Employee service given before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. An entity considers the probability that some employees may not satisfy any vesting requirements in measuring its defined benefit obligation.

Although, certain post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs.

The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

**Illustration 5**

A plan pays a benefit of ₹ 150 for each year of service. The benefits vest after ten years of service. Compute the benefit to be attributed each year?
**Solution**

A benefit of ₹ 150 is attributed to each year. In each of the first ten years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete ten years of service.

- The obligation increases till the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan’s benefit formula.

- However, in case an employee renders service in later years which will lead to a materially higher level of benefit than in earlier years, an entity will attribute benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. As the employee who has rendered service throughout the entire period will ultimately be contributing benefit at that higher level.

**Illustration 6**

*Amra Pvt. Ltd. has a plan for its employees where it has decided to pay a lump-sum benefit of ₹ 2,000 that will vest after ten years of service to the employee. However, such kind of plan will provide no further benefit for subsequent service. Compute the benefit attributed for last 10 years and after these years?*

**Solution**

In this case, as per the company’s plan, a benefit of ₹ 200 (₹ 2,000 divided by ten) is attributed to each of the first ten years. As per Ind AS 19, the benefit will be attributed till the period the employee service will lead to no material amount of benefits. Hence, since the current service cost in each of the first ten years reflects the probability that the employee may not complete ten years of service no benefit is attributed to subsequent years.

**Illustration 7**

*A plan pays a lump-sum retirement benefit of ₹ 4,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service. Compute the benefit attributed?*

**Solution**

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of ₹ 200 (₹ 4,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to
no material amount of further benefits. For these employees, the entity attributes benefit of ₹ 200 (₹ 4,000 divided by 20) to each of the first twenty years. 

For an employee who joins at the age of 55, service beyond ten years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of ₹ 400 (₹ 4,000 divided by 10) to each of the first ten years. 

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service. 

Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Thus, salary increase will not lead to any additional benefits and hence the benefits are directly attributable to each period will be a constant proportion of the salary to which this benefit is linked. 

**Illustration 8**

Sanat Pvt. Ltd. has a plan for the employees where employees are entitled to a benefit of 5% of final salary for each year of service before the age of 55. Compute the benefit attributed up to 55 years and after 55? 

**Solution**

Benefit of 5% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age. 

**1.9.3 Actuarial Assumptions**

**1.9.3.1 Actuarial Assumptions shall be Unbiased and Mutually Compatible**

- Actuarial assumptions are an entity’s best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. 
- Actuarial assumptions comprise:
  - **demographic assumptions** about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:
    - (i) mortality, both during and after employment;
    - (ii) rates of employee turnover, disability and early retirement;
    - (iii) the proportion of plan members with dependants who will be eligible for benefits;
    - (iv) the proportion of plan members who will select each form of payment option available under the plan terms; and
    - (v) claim rates under medical plans; and
(b) **financial assumptions**, dealing with items such as:

(i) the discount rate;

(ii) future salary and benefit levels;

(iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments; and

(iv) the expected rate of return on plan assets.

- Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, salary increment rate and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

- Discount rate and other financial assumptions are determined in nominal terms however estimates in real (inflation-adjusted) terms are sometimes more reliable.

- Financial assumptions are based on market expectations for the period over which the obligations are to be settled at the end of the reporting period.

### 1.9.3.2 Actuarial Assumptions: Mortality and Discount Rate

1. **Mortality Assumptions**

   Entity is required to determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.

   In order to estimate the ultimate cost of the benefit an entity shall takes into consideration the expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

2. **Discount Rate Assumptions**

   - The rate which is used to discount post-employment benefit obligations (both funded and unfunded) is determined by reference to market yields on government bonds at the end of the reporting period.

   - Subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

   - In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.

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The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations as the pay-outs will happen in same currency only.

The discount rate reflects the estimated timing of benefit payments/time value of money and not the actuarial or investment risk. This also does not reflect entity-specific credit risk borne by the entity’s creditors.

Thus, practically speaking, it is achieved by an entity by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid.

Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter-term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period and taking account of any material changes in the obligation.

1.9.3.3 Actuarial Assumptions: Salaries, Benefits and Medical Costs

Defined benefit obligations shall be measured on a basis that reflects:

(a) estimated future salary increases;

(b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;

(c) the effect of any limit on the employer’s share of the cost of the future benefits;

(d) contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and

(e) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

(ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Estimates of future salary increases are calculated after taking account inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

The formal terms of a plan (or a constructive obligation that goes beyond those terms) require an entity to change benefits in future periods; the measurement of the obligation reflects those changes.
Examples can be when

(a) entity has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

(b) actuarial gains have already been recognised in the financial statements and the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants; or

(c) benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

- Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence.

- Assumptions about medical costs shall takes into account estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

- Post-employment medical benefits measurement requires assumptions about the level and frequency of future claims and the cost of meeting those claims. Future medical costs are estimated on the basis of historical data about the entity’s own experience and in case some more data is required to analyse the data, this data is gathered as historical data from other entities, insurance companies, medical providers or other sources. Estimates of future medical costs would consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

- In this scenario, the level and frequency of claims is particularly sensitive to the age, health status and sex of employees (and their dependants) and may be sensitive to other factors such as geographical location. Hence, this historical data is adjusted to the extent that the demographic mix of the population which differs from that of the population used as a basis for the historical data. Also it requires an adjustment where there is reliable evidence that historical trends will not continue.

- Some post-employment health care plans also require employees to contribute to the medical costs covered by the plan and thus estimates of future medical costs also take in account of any such contributions which are based on the terms of the plan at the end of the reporting period (or based on any constructive obligation that goes beyond those terms). Changes in those employee contributions result in past service cost or, where applicable, curtailments. The cost of meeting claims may be reduced by benefits from state or other medical providers.
10.31

Contributions from employees or third parties

Set out in the formal terms of the plan (or arise from a constructive obligation that goes beyond those terms)

Discretionary

Linked to service

Not linked to service (for example, reduce a deficit)

Dependent on the number of years of service

Independent of the number of years of service

Reduce service cost by being attributed to periods of service [paragraph 93(a)]

Reduce service cost in the period in which the related service is rendered [paragraph 93(b)]

Affect re-measurements [paragraph 93]

Reduce service cost upon payment to the plan (paragraph 92)

(1) This dotted arrow means that an entity is permitted to choose either accounting.

1.9.3.4 Actuarial Gains and Losses

- An entity shall recognise immediately in other comprehensive income all of its actuarial gains and losses in measuring its defined benefit liability and this shall be presented in the statement of profit and loss.

- Actuarial gains and losses and adjustments that have been recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period.

- Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:

  a. unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

  b. the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

  c. the effect of changes in the discount rate; and

  d. differences between the actual return on plan assets and the expected return on plan assets.
1.9.3.5 Past Service Cost and Gains and Losses on Settlement

In order to calculate past service cost, or a gain or loss on settlement, an entity is required to remeasure the net defined benefit liability (asset) first using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.

An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases, an entity recognises past service cost before any gain or loss on settlement.

A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

1.9.3.5.1 Past Service Cost

Change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment is known as past service cost.

An entity shall recognise past service cost as an expense at the earlier of the following dates:
(a) when the plan amendment or curtailment occurs; and
(b) when the entity recognises related restructuring costs (refer Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets) or termination benefits.

Plan amendment happens when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

Curtailment arises when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

Past service cost excludes the following:
(a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);
(b) underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) estimates of benefit improvements that result from actuarial gains that have been recognised in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded; and

(d) the increase in vested benefits when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognised the estimated cost of benefits as current service cost as the service was rendered); and

1.9.3.5.2 Gains and losses on settlement

- A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions).

- The gain or loss on a settlement is the difference between:
  
  (a) the present value of the defined benefit obligation being settled, as determined on the date of settlement; and
  
  (b) the settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

- Gain or loss on the settlement of a defined benefit plan is recognised by the entity when the settlement occurs.

1.10 RECOGNITION AND MEASUREMENT: PLAN ASSETS

1.10.1 Fair Value of Plan Assets

- The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

- Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

- Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance
policies is deemed to be the present value of the related obligations, (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

### 1.10.2 Reimbursements

- An entity will recognise its right to reimbursement as a separate asset when, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation. The assets are measured at fair value by the entity and in all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of profit and loss, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.

- Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. An entity accounts for qualifying insurance policies in the same way as for all other plan assets. When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset.

- In such a scenario, an entity recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability and in all other respects, the entity treats that asset in the same way as plan assets.

- If the right to reimbursement arises under an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation.

### 1.11 COMPONENTS OF DEFINED BENEFIT COST

- An entity is required to recognise the components of defined benefit cost, except to the extent that another Ind AS (refer Ind AS 2 and Ind AS 16) requires or permits their inclusion in the cost of an asset, as follows:
  
  (a) service cost in profit or loss;

  (b) net interest on the net defined benefit liability (asset) in profit or loss; and

  (c) remeasurements of the net defined benefit liability (asset) in other comprehensive income.

- Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.
1.11.1 Net interest on the net defined benefit liability (asset)

- Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Net interest on the net defined benefit liability (asset) can be viewed as comprising interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling.

- Interest income on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments.

- The difference between the interest income on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

- Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate, both as determined at the start of the annual reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

1.11.2 Remeasurements of the net defined benefit liability (asset)

- Remeasurements of the net defined benefit liability (asset) comprise:
  
  (a) actuarial gains and losses;
  
  (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and
  
  (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

- Actuarial gains and losses occur from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Following are the few causes of actuarial gains and losses:
  
  (a) unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;
  
  (b) the effect of changes to assumptions concerning benefit payment options;
(c) the effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) the effect of changes in the discount rate.

- Actuarial gains and losses does not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Rather such changes shall result in past service cost or gains or losses on settlement.

- In measuring the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation. Other administration costs are not deducted from the return on plan assets.

### 1.12 PRESENTATION

#### 1.12.1 Offset

- An asset relating to one plan will be offset against a liability relating to another plan in case the entity:
  
  (a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and
  
  (b) there is an intention either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

- The offsetting criteria are similar to those established for financial instruments in Ind AS 32, Financial Instruments: Presentation.

#### 1.12.2 Current/Non-current Distinction

This Standard does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits.

#### 1.12.3 Components of Defined Benefit Costs

This Standard does not specify whether an entity should present current service cost and net interest cost on net defined liability (asset) as components of a single item of income or expense in the statement of profit and loss. An entity presents those components in accordance with Ind AS 1 Presentation of Financial Statements.
1.13 DISCLOSURE

An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.

1.13.1 General

- An entity shall disclose information that:
  (a) explains the characteristics of its defined benefit plans and risks associated with them;
  (b) identifies and explains the amounts in its financial statements arising from its defined benefit plans; and
  (c) describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity’s future cash flows.

- To meet these objectives, an entity should have regard to all the following:
  (a) the level of detail necessary to satisfy the disclosure requirements;
  (b) how much emphasis to place on each of the various requirements;
  (c) how much aggregation or disaggregation to undertake; and
  (d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

- If the disclosures provided in accordance with Ind AS 19 and other Ind As are insufficient to meet the objectives above, additional information necessary to meet those objectives should be disclosed. For example, an entity might present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:
  (a) between amounts owing to active members, deferred members, and pensioners;
  (b) between vested benefits and accrued but not vested benefits; and
  (c) between conditional benefits, amounts attributable to future salary increases and other benefits.

- An entity is required to assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:
  (a) different geographical locations;
(b) different characteristics such as flat salary pension plans, final salary pension plans or postemployment medical plans;
(c) different regulatory environments;
(d) different reporting segments; and
(e) different funding arrangements (e.g. wholly unfunded, wholly or partly funded).

1.13.2 Characteristics of defined benefit plans and risks associated with them

An entity shall disclose:

(a) information about the characteristics of its defined benefit plans, including:
   (i) the nature of the benefits provided by the plan (e.g. final salary defined benefit plan or contribution-based plan with guarantee);
   (ii) a description of the regulatory framework in which the plan operates (e.g. the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling); and
   (iii) a description of any other entity’s responsibilities for the governance of the plan (e.g. responsibilities of trustees or of board members of the plan).

(b) a description of the risks to which the plan exposes the entity, focused on any unusual, entity specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments (e.g. property), the plan may expose the entity to a concentration of property market risk; and

(c) a description of any plan amendments, curtailments and settlements.

1.13.3 Explanation of amounts in the financial statements

- An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:
  (a) the net defined benefit liability (asset), showing separate reconciliations for:
     (i) plan assets;
     (ii) the present value of the defined benefit obligation; and
     (iii) the effect of the asset ceiling; and
  (b) any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.
Each reconciliation listed in paragraph 140 shall show each of the following, if applicable:

(a) current service cost;
(b) interest income or expense;
(c) remeasurements of the net defined benefit liability (asset), showing separately:
   (i) the return on plan assets, excluding amounts included in interest in interest income or expense;
   (ii) actuarial gains and losses arising from changes in demographic assumptions;
   (iii) actuarial gains and losses arising from changes in financial assumptions; and
   (iv) changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest income or expense. An entity shall also disclose how it determined the maximum economic benefit available, i.e. whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both;
(d) past service cost and gains and losses arising from settlements. If permitted by the standard past service cost and gains and losses arising from settlements need not be distinguished if they occur together;
(e) the effect of changes in foreign exchange rates;
(f) contributions to the plan, showing separately those by the employer and by plan participants;
(g) payments from the plan, showing separately the amount paid in respect of any settlements; and
(h) the effects of business combinations and disposals.

The fair value of the plan assets shall be disaggregated into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in Ind AS 113, *Fair Value Measurement*) and those that do not. For example, and considering the level of general disclosures, an entity might distinguish between:

(a) cash and cash equivalents;
(b) equity instruments (segregated by industry type, company size, geography etc);
(c) debt instruments (segregated by type of issuer, credit quality, geography etc);
(d) real estate (segregated by geography etc);
(e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);
(f) investment funds (segregated by type of fund);
(g) asset-backed securities; and
(h) structured debt.

- An entity shall disclose:
  (a) the fair value of the entity's own transferable financial instruments held as plan assets; and
  (b) the fair value of plan assets that are property occupied by, or other assets used by, the entity.

- An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (e.g. as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

### 1.13.4 Amount, timing and uncertainty of future cash flows

- An entity shall disclose:
  (a) a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;
  (b) the methods and assumptions used in preparing these sensitivity analyses and the limitations of those methods; and
  (c) changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

- An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

- To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:
  (a) a description of any funding arrangements and funding policy that affect future contributions;
  (b) the expected contributions to the plan for the next annual reporting period;
  (c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other
information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

1.13.5 Multi-employer plans

If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) a description of the funding arrangements, including the method used to determine the entity’s rate of contributions and any minimum funding requirements;

(b) a description of the extent to which the entity can be liable to the plan for other entities’ obligations under the terms and conditions of the multi-employer plan; and

(c) a description of any agreed allocation of a deficit or surplus on:
   (i) wind-up of the plan; or
   (ii) the entity’s withdrawal from the plan.

1.13.6 Disclosure requirements in other Ind AS

- Where required by Ind AS 24 Related Party Disclosures, an entity discloses information about:
  (a) related party transactions with post-employment benefit plans; and
  (b) post-employment benefits for key management personnel.

- Where required by Ind AS 37 Provisions, Contingent liabilities and Contingent Assets, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

1.14 OTHER LONG-TERM EMPLOYEE BENEFITS

- Other long-term employee benefits which are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

- Other long-term employee benefits include, for example:
  (a) long-term paid absences such as long-service or sabbatical leave;
  (b) jubilee or other long-service benefits;
  (c) long-term disability benefits;
  (d) profit-sharing and bonuses; and
  (e) deferred remuneration.

- The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. It is also there that
the introduction of, or changes to, other long-term employee benefits rarely causes a material amount of past service cost. This method does not recognise remeasurements in other comprehensive income as required under the accounting required for post-employment benefits.

**1.14.1 Recognition and Measurement**

- The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:
  
  (a) the present value of the defined benefit obligation at the end of the reporting period;
  
  (b) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

- An entity shall recognise the net total of the following amounts as expense or income for other long-term employee benefits, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
  
  (a) service cost;
  
  (b) net interest on the net defined benefit liability (asset); and
  
  (c) remeasurements of the net defined benefit liability (asset).

- One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

**1.14.2 Disclosure**

Though this Standard does not require specific disclosures about other long-term employee benefits, other Standards may require disclosures, for example, where the expense resulting from such benefits is material and so would require disclosure in accordance with Ind AS 1. When required by Ind AS 24, an entity discloses information about other long-term employee benefits for key management personnel.

**1.15 TERMINATION BENEFITS**

- This Standard deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination of employment rather than employee service.
Termination benefits results from:

(a) either an entity’s decision to terminate the employment or

(b) an employee’s decision to accept an entity’s offer of benefits in exchange for termination of employment.

### 1.15.1 Recognition

An entity is required to recognise a liability and expense for termination benefits at the earlier of the following dates:

(a) when the entity can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring which is within the scope of Ind AS 37 and involves the payment of termination benefits.

For termination benefits payable as a result of an employee’s decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

(a) when the employee accepts the offer; and

(b) when a restriction (eg a legal, regulatory or contractual requirement or other restriction) on the entity’s ability to withdraw the offer takes effect.

For termination benefits payable as a result of an entity’s decision to terminate an employee’s employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

(a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

(b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

(c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

When an entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits.

Where an entity recognises termination benefits, the entity may also have to account for a curtailment of retirement benefits or other employee benefits.
1.15.2 Measurement

An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

(a) if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

(b) If the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long term employee benefits.

Example on Termination Benefits

As a result of a recent acquisition, an entity plans to close a factory in ten months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of ₹ 30,000. Employees leaving before closure of the factory will receive ₹ 10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are ₹ 3,200,000 (ie 20 × ₹ 10,000 + 100 × ₹ 30,000). As required by paragraph 160, the entity accounts for benefits provided in exchange for termination of employment as termination benefits and accounts for benefits provided in exchange for services as short-term employee benefits.

Termination benefits

The benefit provided in exchange for termination of employment is ₹ 10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees’ employment is a result of the entity’s decision to close the factory and terminate their employment (ie all employees will leave employment when the factory closes). Therefore, the entity recognises a liability of ₹ 1,200,000 (ie 120 × ₹ 10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognises the restructuring costs associated with the closure of the factory.
**Benefits provided in exchange for service**

The incremental benefits that employees will receive if they provide services for the full ten-month period are in exchange for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the annual reporting period. In this example, discounting is not required, so an expense of ₹ 200,000 (ie ₹ 2,000,000 ÷ 10) is recognised in each month during the service period of ten months, with a corresponding increase in the carrying amount of the liability.

**1.15.3 Disclosure**

This Standard does not require specific disclosures about termination benefits, other Ind AS may require disclosures. For example, where required by Ind AS 24 an entity discloses information about termination benefits for key management personnel. Ind AS 1 requires disclosure of employee benefits expense.

**1.16 IND AS 19 — THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION**

**1.16.1 Background**

- This Accounting Standard limits the measurement of a defined benefit asset to the lower of ‘the surplus in the defined benefit plant and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

- Minimum funding requirements normally stipulate a minimum amount or level of contributions that must be made to a plan over a given period. Therefore, a minimum funding requirement may limit the ability of the entity to reduce future contributions.

- However, the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. As normally, a requirement for making contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is so because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid.

**1.16.2 Scope**

This Appendix applies to all post-employment defined benefits and other long-term employee defined benefits. For the purpose of this Appendix, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.
1.16.3 Issues

The issues addressed in this Appendix are:

(a) when refunds or reductions in future contributions should be regarded as available.

(b) how a minimum funding requirement might affect the availability of reductions in future contributions.

(c) when a minimum funding requirement might give rise to a liability.

1.16.4 Principles

1.16.4.1 Availability of a refund or reduction in future contributions

 Availability of a refund or a reduction in future contributions shall be determined in accordance with the terms and conditions of the plan and any statutory requirements in the jurisdiction of the plan.

 An economic benefit is available in the form of a refund or a reduction in future contributions if the entity can realise it at some point during the life of the plan or when the plan liabilities are settled.

 The economic benefit available does not depend on how the entity intends to use the surplus. An entity shall determine the maximum economic benefit that is available from refunds, reductions in future contributions or a combination of both. An entity shall not recognise economic benefits from a combination of refunds and reductions in future contributions based on assumptions that are mutually exclusive.

 In accordance with Ind AS 1, the entity shall disclose information about the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amount of the net asset or liability recognised in the balance sheet. This might include disclosure of any restrictions on the current realisability of the surplus or disclosure of the basis used to determine the amount of the economic benefit available.

1.16.4.2 The economic benefit available as a refund

1. The right to a refund

 A refund is available to an entity only if the entity has an unconditional right to a refund:

(a) during the life of the plan, without assuming that the plan liabilities must be settled in order to obtain the refund (e.g., in some jurisdictions, the entity may have a right to a refund during the life of the plan, irrespective of whether the plan liabilities are settled); or

(b) assuming the gradual settlement of the plan liabilities over time until all members have left the plan; or
(c) assuming the full settlement of the plan liabilities in a single event (i.e., as a plan wind-up).

- An unconditional right to a refund can exist whatever the funding level of a plan at the end of the reporting period.

- If the entity’s right to a refund of a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset.

2. Measurement of the economic benefit

- An entity shall measure the economic benefit available as a refund as the amount of the surplus at the end of the reporting period (being the fair value of the plan assets less the present value of the defined benefit obligation) that the entity has a right to receive as a refund, less any associated costs. For instance, if a refund would be subject to a tax other than income tax, an entity shall measure the amount of the refund net of the tax.

- In measuring the amount of a refund available when the plan is wound up, an entity shall include the costs to the plan of settling the plan liabilities and making the refund. For example, an entity shall deduct professional fees if these are paid by the plan rather than the entity, and the costs of any insurance premiums that may be required to secure the liability on wind-up.

- An entity shall make no adjustment for the time value of money, even if the refund is realisable only at a future date if the amount of a refund is determined as the full amount or a proportion of the surplus, rather than a fixed amount.

1.16.4.3 The economic benefit available as a contribution reduction

- The economic benefit available as a reduction in future contributions is the future service cost to the entity for each period over the shorter of the expected life of the plan and the expected life of the entity if there is no minimum funding requirement for contributions relating to future service. The future service cost to the entity excludes amounts that will be borne by employees.

- An entity shall determine the future service costs using assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period. Thus, no change to the benefits to be provided by a plan in the future can be assumed by the entity until the plan is amended and shall assume a stable workforce in the future.

1.16.4.4 The effect of a minimum funding requirement on the economic benefit available as a reduction in future contributions.

- An entity shall analyse any minimum funding requirement at a given date into contributions that are required to cover
(a) any existing shortfall for past service on the minimum funding basis and
(b) future service.

- Contributions to cover any existing shortfall on the minimum funding basis in respect of services already received do not affect future contributions for future service. They may give rise to a liability.

- If there is a minimum funding requirement for contributions relating to the future service, the economic benefit available as a reduction in future contributions is the sum of:
  (a) any amount that reduces future minimum funding requirement contributions for future service because the entity made a prepayment (i.e., paid the amount before being required to do so); and
  (b) the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service in those periods if there were no prepayment as described in (a).

- An entity shall estimate the future minimum funding requirement contributions for future service taking into account the effect of any existing surplus determined using the minimum funding basis but excluding the prepayment. An entity shall use assumptions consistent with the minimum funding basis and, for any factors not specified by that basis, assumptions consistent with those used to determine the defined benefit obligation and with the situation that exists at the end of the reporting period. The estimate shall include any changes expected as a result of the entity paying the minimum contributions when they are due. However, the estimate shall not include the effect of expected changes in the terms and conditions of the minimum funding basis that are not substantively enacted or contractually agreed at the end of the reporting period.

- When an entity determines the amount, if the future minimum funding requirement contributions for future service exceed the future service cost in any given period, that excess reduces the amount of the economic benefit available as a reduction in future contributions.

1.16.4.6 When a minimum funding requirement may give rise to a liability

- If an entity has an obligation under a minimum funding requirement to pay contributions to cover an existing shortfall on the minimum funding basis in respect of services already received, the entity shall determine whether the contributions payable will be available as a refund or reduction in future contributions after they are paid into the plan.

- To the extent that the contributions payable will not be available after they are paid into the plan, the entity shall recognise a liability when the obligation arises. The liability shall reduce the defined benefit asset or increase the defined benefit liability so that no gain or loss is expected.
## 1.17 Significant Differences in Ind AS 19 vis-à-vis AS 15

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Particulars</th>
<th>Ind AS 19</th>
<th>AS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Constructive Obligations</strong></td>
<td>In Ind AS 19, employee benefits arising from constructive obligations are also covered</td>
<td>AS 15 does not deal with the same</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Definition of Employee</strong></td>
<td>Ind AS 19 the term includes directors</td>
<td>As per AS 15, the term ‘employee’ includes whole-time directors</td>
</tr>
<tr>
<td>3.</td>
<td><strong>Other Definitions</strong></td>
<td>Definitions of short-term employee benefits, other long-term employee benefits, and past service cost is different in Ind AS 19</td>
<td>Different definitions are given in AS 15</td>
</tr>
<tr>
<td>4.</td>
<td><strong>Contractual Agreement between a Multi-employer Plan and its Participants</strong></td>
<td>Ind AS 19 deals with situations where there is a contractual agreement between a multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded).</td>
<td>AS 15 does not deal with it</td>
</tr>
<tr>
<td>5.</td>
<td><strong>Participation in a Defined Benefit Plan Sharing Risks Between Various Entities under Common Control</strong></td>
<td>As per Ind AS 19, participation in a defined benefit plan sharing risks between various entities under common control is a related party transaction for each group entity and some disclosures are required in the separate or individual financial statements of an entity</td>
<td>AS 15 does not contain similar provisions</td>
</tr>
<tr>
<td>6.</td>
<td><strong>Qualified Actuary</strong></td>
<td>Ind AS 19 encourages, but does not require, an entity to involve a qualified actuary in the measurement of all</td>
<td>AS 15 though does not require involvement of a qualified actuary, does</td>
</tr>
<tr>
<td>S. No.</td>
<td>Particulars</td>
<td>Ind AS 19</td>
<td>AS 15</td>
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<td>7.</td>
<td>Recognition of Actuarial Gains and Losses</td>
<td>Ind AS 19 requires that the same shall be recognised in other comprehensive income and should not be recognised in profit or loss.</td>
<td>AS 15 requires recognition of actuarial gains and losses immediately in the profit and loss</td>
</tr>
<tr>
<td>8.</td>
<td>Financial Assumptions</td>
<td>Ind AS 19 makes it clear that financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled</td>
<td>AS 15 does not clarify the same</td>
</tr>
<tr>
<td>9.</td>
<td>Discounting of Post-employment Benefit Obligations</td>
<td>As per Ind AS 19, subsidiaries, associates, joint ventures and branches domiciled outside India shall discount post-employment benefit obligations arising on account of post-employment benefit plans using the rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In case, such subsidiaries, associates, joint ventures and branches are domiciled in countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds of that country shall be used.</td>
<td>As per AS 15, the rate used to discount post-employment benefit obligations should always be determined by reference to market yields at the balance sheet date on government bond.</td>
</tr>
<tr>
<td>10.</td>
<td>Timing of Recognition of Termination Benefits</td>
<td>Under Ind AS 19, more guidance has been given for timing of recognition of termination benefits.</td>
<td>Recognition criteria for termination benefits under the revised standard differ from the criteria prescribed in AS 15.</td>
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<tr>
<td>S. No.</td>
<td>Particulars</td>
<td>Ind AS 19</td>
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<td>11.</td>
<td><strong>Guidance on Interaction of Ceiling of Asset Recognition and Minimum Funding Requirement</strong></td>
<td>Ind AS 19 gives guidance on the interaction of ceiling of asset recognition and minimum funding requirement in the case of defined benefit obligations.</td>
<td>Such guidance is not available in AS 15.</td>
</tr>
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</table>
Practical Questions

1. A plan provides a monthly pension of 0.3% of final salary for each year of service. The pension is payable from the age of 65. What is the current service cost?

2. A plan pays a benefit of ₹ 140 for each year of service, excluding service before the age of 25. The benefits vest immediately. Compute the benefit to be attributed before the age of 25 and after 25?

3. B Pvt. Ltd. has a post-employment medical plan which will reimburse 20% of an employee’s post-employment medical costs if the employee leaves after more than ten and less than twenty years of service and 50% of those costs if the employee leaves after twenty or more years of service. Compute the benefit attributed for last 20 years, 10 and 20 years and within 10 years?

4. Cisca Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in 20X0-20X1. As per the company policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and sick leave, 10 and 5 can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 as PL and 5 as SL. Also the company has been incurring profits since 20XX. It has decided in 20X0-20X1 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Cisca Pvt. Ltd. is expected to be around 3.5%. The profits earned during 20X0-20X1 is ₹ 2,000 crores.

Cisca Pvt. Ltd. has a post-employment benefit plan also available which is the nature of defined contribution plan where contribution to this fund amounts to ₹ 100 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 20 crores to its employees in 20X0-20X1.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Cisca Pvt. Ltd?

Answers to Practical Questions

1. Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.3% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.3% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.
2. No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of ₹ 140 is attributed to each subsequent year.

3. As per Ind AS 19, the benefit will be attributed till the period the employee service will lead to no material amount of benefits. And service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after twenty or more years, the entity attributes benefit on a straight-line basis. Service beyond twenty years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first twenty years is 2.5% of the present value of the expected medical costs (50% divided by twenty).

For employees expected to leave between ten and twenty years, the benefit attributed to each of the first ten years is 2% (20% divided by 10) of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the tenth year and the estimated date of leaving.

For employees expected to leave within ten years, no benefit is attributed.

4. (i) Cisca Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 20X0-20X1.

(ii) Cisca Pvt. Ltd. will recognise ₹ 70 crores (2,000 x 3.5%) as a liability and expense it books of account.

(iii) When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

(a) Under Ind AS 19, the amount of ₹ 80 crores may be recognised as a liability (accrued expense), after deducting any contribution already paid (100-20). However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and

(b) Also, ₹ 80 crores will be recognised as an expense in this case study which will be disclosed as an expense in the statement of profit or loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service, they will not be discounted. However, where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate.