

Invitation To Comment On Exposure Draft of Revised AS 15, Employee Benefits

The Accounting Standards Board of the Institute of Chartered Accountants of India invites comments on any aspect of the Exposure Draft of the revised Accounting Standard (AS) 15, Employee Benefits, published hereinafter. The Board would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **30th October, 2004**. Comments can also be sent by e-mail at tdte@icai.org.

Question 1 – Actuarial Assumptions: Determination of Discount Rate

In respect of discount rate to be used to discount post-employment benefit obligations (both funded and unfunded), International Accounting Standard (IAS) 19 requires that it should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. IAS 19 further provides that in countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

The Exposure Draft of revised AS 15 proposes to require the use of only market yields on government bonds for the above purpose keeping in view the Indian context where, either by legislation or otherwise, the plan assets are required to be invested either wholly or substantially in securities similar to government bonds (see paragraphs 78-82 of the Draft).

Do you agree with the above proposal? If not, why not?

Another view is that the rate assured by a regulator, if any, on plan assets, should be the rate to be used to discount post-employment benefit obligations. It may be noted

that IAS 19 does not require or permit such a rate on the ground that for determination of a liability the rate of return on an asset should not be taken into consideration.

Do you subscribe to the above view and why?

Question 2 – Treatment of Actuarial gains and losses

IAS 19 provides an option to recognise actuarial gains and losses either:

- (i) by following a ‘Corridor Approach’, which results in deferred recognition of the actuarial gains and losses, or
- (ii) immediately in the statement of profit and loss.

The Exposure Draft of revised AS 15 proposes not to admit an option and proposes to require that actuarial gains and losses should be recognised immediately in the statement of profit and loss. This treatment is in line with the existing AS 15.

Do you agree with the above proposal? If not, why not? (see paragraphs 92-93 of the Draft and Appendix C thereof for the reasons of not allowing adoption of ‘Corridor Approach’ in the Draft).

[For details with regard to ‘Corridor Approach’, IAS 19 ‘Employee Benefits’, may be referred to (particularly paragraphs 54-62, 92-95 and Appendices A and C of IAS 19). A copy of IAS 19 would be made available to the concerned commentator on request to the Secretary, Accounting Standards Board.]

Question 3 – Treatment of past service costs

In respect of past service costs, IAS 19 makes a distinction between the vested and non-vested benefits. It requires, in general, that in measuring its defined benefit liability, an enterprise should recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost

immediately. The Exposure Draft of revised AS 15, on the other hand, proposes not to make such a distinction and proposes to require that past-service cost should be recognised immediately in the statement of profit and loss. It may be noted that existing AS 15 (1995) does not make such a distinction between vesting and non-vesting and requires immediate expensing of both. It is noted that such a distinction would result in avoidable complications. Accordingly, it is felt that it would be appropriate to continue with the provisions of existing AS 15 (1995) in this regard (see paragraphs 94-98 of the Draft).

Do you agree with the above proposal? If not, why not?

Question 4 - Transitional Provisions

- (i) In respect of employee benefits other than defined benefit plans and termination benefits, the Exposure Draft of revised AS 15 proposes to require that where an enterprise first adopts this Statement for employee benefits, the difference between the liability in respect of employee benefits other than defined benefit plans and termination benefits, as per this Statement, existing on the date of adopting this Statement and the liability that would have been recognised at the same date under the enterprise's previous accounting policy, should be adjusted

against opening balance of revenue reserves.

- (ii) In respect of transitional liability for defined benefit plans also, the Exposure Draft of revised AS 15 proposes to require that the difference between the transitional liability as per this Statement and the liability that would have been recognised under the enterprise's previous accounting policy, should be adjusted against the opening balance of revenue reserves.
- (iii) In respect of termination benefits, the Exposure Draft of AS 15, considering that the industry in India at present is passing through a restructuring phase, proposes to provide a transitional provision that where an enterprise incurs expenditure on termination benefits within three years of this Statement first coming into effect, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period subject to a maximum of 5 years.

Do you agree with the above proposals? If not, why not?

Question 5 - Other comments

Do you have any other comments on the Exposure Draft of revised Accounting Standard (AS) 15, Employee Benefits?

Exposure Draft

Accounting Standard (AS) 15 (revised 2004)

Employee Benefits

*(This Exposure Draft of the revised Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Exposure Draft of the revised Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹.)*

Accounting Standard (AS) 15, Employee Benefits (revised 2004) would come into effect in respect of accounting periods commencing on or after ____ (date to be decided later) and would be mandatory in nature² from that date. The revised Standard would supersede Accounting Standard (AS) 15, Accounting for Retirement Benefits in the Financial Statements of Employers, issued in 1995.

The following is the text of the Exposure Draft of the revised Accounting Standard.

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

² This implies that, while discharging their attest function, it will be the duty of the members of the Institute to examine whether this Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from this Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

Objective

The objective of this Statement is to prescribe the accounting and disclosure for employee benefits. The Statement requires an enterprise to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the enterprise consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Scope

1. ***This Statement should be applied by an employer in accounting for all employee benefits, except employee share-based payments³.***
2. This Statement does not deal with accounting and reporting by employee benefit plans.
3. The employee benefits to which this Statement applies include those provided:
 - (a) under formal plans or other formal agreements between an enterprise and individual employees, groups of employees or their representatives;
 - (b) under legislative requirements, or through industry arrangements, whereby enterprises are required to contribute to state, industry or other multi-employer plans; or
 - (c) by those informal practices that give rise to an obligation. Informal practices give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of such an obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.
4. Employee benefits include:
 - (a) short-term employee benefits, such as wages, salaries and social security contributions,

paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

- (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and
- (d) termination benefits.

Because each category identified in (a) to (d) above has different characteristics, this Statement establishes separate requirements for each category.

5. Employee benefits include benefits provided to either employees or their dependants and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependants or to others, such as insurance companies.
6. An employee may provide services to an enterprise on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Statement, employees include directors and other management personnel.

Definitions

7. ***The following terms are used in this Statement with the meanings specified:***

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.

³ The accounting for such benefits is being dealt with in the Guidance Note on Accounting for Employee Share-based Payments under issue by the Institute of Chartered Accountants of India.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees.

Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no 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.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Multi-employer plans are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) pool the assets contributed by various enterprises that are not under common control; and
- (b) use those assets to provide benefits to employees of more than one enterprise, on the basis that contribution and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

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

- (a) an enterprise's decision to terminate an employee's employment before the normal retirement date; or

- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement).

Vested employee benefits are employee benefits that are not conditional on future employment.

The present value of a defined benefit obligation is the 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.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Plan assets comprise:

- (a) assets held by a long-term employee benefit fund; and
- (b) qualifying insurance policies.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting enterprise) that:

- (a) are held by an entity (a fund) that is legally separate from the reporting enterprise 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 enterprise's own creditors (even in bankruptcy), and cannot be returned to the reporting enterprise, 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 enterprise; or
 - (ii) the assets are returned to the reporting enterprise to reimburse it for employee benefits already paid.

A qualifying insurance policy is an insurance

policy issued by an insurer that is not a related party (as defined in AS 18 Related Party Disclosures) of the reporting enterprise, 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 enterprise's own creditors (even in bankruptcy) and cannot be paid to the reporting enterprise, 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 enterprise to reimburse it for employee benefits already paid.*

***Fair value** is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.*

*The **return on plan assets** is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.*

***Actuarial gains and losses** comprise:*

- (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.*

***Past service cost** is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).*

Short-term Employee Benefits

8. Short-term employee benefits include items such as:
 - (a) wages, salaries and social security contributions;
 - (b) short-term compensated absences (such as paid annual leave and paid sick leave) where the absences are expected to occur within twelve

months after the end of the period in which the employees render the related employee service;

- (c) profit-sharing and bonuses payable within twelve months after the end of the period in which the employees render the related service; and
 - (d) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.
9. Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

Recognition and Measurement

All Short-term Employee Benefits

10. *When an employee has rendered service to an enterprise during an accounting period, the enterprise should recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:*

- (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 enterprise should 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, unless another Accounting Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, AS 2 Valuation of Inventories, and AS 10 Accounting for Fixed Assets).*

Paragraphs 11, 14 and 17 explain how an enterprise should apply this requirement to short-term employee benefits in the form of compensated absences and profit-sharing and bonus plans.

Short-term Compensated Absences

11. *An enterprise should recognise the expected cost of*

short-term employee benefits in the form of compensated absences under paragraph 10 as follows:

- (a) in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and*
- (b) in the case of non-accumulating compensated absences, when the absences occur.*

12. An enterprise may compensate employees for absence for various reasons including vacation, sickness and short-term disability, and maternity or paternity. Entitlement to compensated absences falls into two categories:

- (a) accumulating; and
- (b) non-accumulating.

13. Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the enterprise) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future compensated absences. The obligation exists, and is recognised, even if the compensated absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.

14. An enterprise should measure the expected cost of accumulating compensated absences as the additional amount that the enterprise expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date.

15. The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an enterprise may not need to make detailed computations to estimate that there is no material

obligation for unused compensated absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid vacation.

Example Illustrating Paragraphs 14 and 15

An enterprise has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X4, the average unused entitlement is two days per employee. The enterprise expects, based on past experience which is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X5 and that the remaining eight employees will take an average of six and a half days each.

The enterprise expects that it will pay an additional 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 December 20X4 (one and a half days each, for eight employees). Therefore, the enterprise recognises a liability, as at 31 December 20X4, equal to 12 days of sick pay.

16. Non-accumulating compensated absences do not carry forward: they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the enterprise. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), and maternity or paternity leave. An enterprise recognises no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-sharing and Bonus Plans

17. An enterprise should recognise the expected cost of profit-sharing and bonus payments under paragraph 10 when, and only when:

(a) the enterprise has a present obligation to make such payments as a result of past events; and

(b) a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the enterprise has no realistic alternative but to make the payments.

18. Under some profit-sharing plans, employees receive a share of the profit only if they remain with the enterprise for a specified period. Such plans create an obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such obligations reflects the possibility that some employees may leave without receiving profit-sharing payments.

Example Illustrating Paragraph 18

A profit-sharing plan requires an enterprise to pay a specified proportion of its net profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of net profit. The enterprise estimates that staff turnover will reduce the payments to 2.5% of net profit.

The enterprise recognises a liability and an expense of 2.5% of net profit.

19. An enterprise may have no legal obligation to pay a bonus. Nevertheless, in some cases, an enterprise has a practice of paying bonuses. In such cases also, the enterprise has an obligation because the enterprise has no realistic alternative but to pay the bonus. The measurement of the obligation reflects the possibility that some employees may leave without receiving a bonus.

20. An enterprise can make a reliable estimate of its obligation under a profit-sharing or bonus plan when, and only when:

(a) the formal terms of the plan contain a formula for determining the amount of the benefit; or

(b) the enterprise determines the amounts to be paid before the financial statements are approved; or

(c) past practice gives clear evidence of the amount of the enterprise's obligation.

21. An obligation under profit-sharing and bonus plans results from employee service and not from a transaction with the enterprise's owners. Therefore, an enterprise recognises the cost of profit-sharing and bonus plans not as a distribution of net profit but as an expense.

22. If profit-sharing and bonus payments are not due wholly within twelve months after the end of the period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 124-128).

Disclosure

23. Although this Statement does not require specific disclosures about short-term employee benefits, other Accounting Standards may require disclosures. For example, where required by AS 18 *Related Party Disclosures* an enterprise discloses information about employee benefits for key management personnel.

**Post-employment Benefits:
Defined Contribution Plans and
Defined Benefit Plans**

24. Post-employment benefits include, for example:

(a) retirement benefits, such as gratuity and pensions; and

(b) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

Arrangements whereby an enterprise provides post-employment benefits are post-employment benefit plans. An enterprise applies this Statement to all such arrangements whether or not they involve the establishment of a separate entity to receive contributions and to pay benefits.

25. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions. Under defined contribution plans:

- (a) the enterprise's obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an enterprise (and also by the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; and
- (b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

26. Examples of cases where an enterprise's obligation is not limited to the amount that it agrees to contribute to the fund are when the enterprise has an obligation through:

- (a) a plan benefit formula that is not linked solely to the amount of contributions; or
- (b) a guarantee, either indirectly through a plan or directly, of a specified return on contributions; or
- (c) informal practices that give rise to an obligation, for example, an obligation may arise where an enterprise has a history of increasing benefits for former employees to keep pace with inflation even where there is no legal obligation to do so.

27. Under defined benefit plans:

- (a) the enterprise'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 enterprise. If actuarial or investment experience are worse than expected, the enterprise's obligation may be increased.

28. Paragraphs 29 to 43 below deal with defined con-

tribution plans and defined benefit plans in the context of multi-employer plans, state plans and insured benefits.

Multi-employer Plans

29. An enterprise should classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an enterprise should:

- (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**
- (b) disclose the information required by paragraph 117.**

30. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an enterprise should:

- (a) account for the plan under paragraphs 45-47 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 enterprise to account for the plan as a defined benefit plan; 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 enterprise.**

31. One example of a defined benefit multi-employer plan is one where:

- (a) the plan is financed in a manner such that contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and
- (b) employees' benefits are determined by the length of their service and the participating enterprises have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the enterprise; if the ultimate cost of benefits already earned at the balance sheet date is more than expected, the enterprise will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.
32. Where sufficient information is available about a multi-employer plan which is a defined benefit plan, an enterprise accounts for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, in some cases, an enterprise may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:
- (a) the enterprise does not have access to information about the plan that satisfies the requirements of this Statement; or
- (b) the plan exposes the participating enterprises to actuarial risks associated with the current and former employees of other enterprises, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual enterprises participating in the plan.
- In those cases, an enterprise accounts for the plan as if it were a defined contribution plan and discloses the additional information required by paragraph 30.
33. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating enterprises to actuarial risks associated with the current and former employees of other enterprises. The definitions in this Statement require an enterprise to classify a group administration plan as a defined contribution plan or a defined benefit plan in accordance with the terms of the plan (including any obligation that goes beyond the formal terms).
34. Defined benefit plans that pool the assets contributed by various enterprises under common control, for example, a parent and its subsidiaries, are not multi-employer plans. However, if the plan otherwise meets the definition of a multi-employer plan and the enterprise meets the following criteria, the enterprise may treat it as a multi-employer plan in its separate financial statements:
- (i) the enterprise is a parent that presents consolidated financial statements; or
- (ii) the enterprise is a wholly-owned subsidiary of an ultimate or any immediate parent that presents consolidated financial statements.
35. If the enterprise does not meet the criteria in paragraph 34, it makes, in its separate financial statements, a reasonable and consistent allocation of defined benefit plans that pool the assets contributed by enterprises under common control.
36. AS 29 *Provisions, Contingent Liabilities and Contingent Assets* requires an enterprise to recognise, or disclose information about, certain contingent liabilities. In the context of a multi-employer plan, a contingent liability may arise from, for example:
- (a) actuarial losses relating to other participating enterprises because each enterprise that participates in a multi-employer plan shares in the actuarial risks of every other participating enterprise; or
- (b) any responsibility under the terms of a plan to finance any shortfall in the plan if other enterprises cease to participate.

State Plans

37. *An enterprise should account for a state plan in the same way as for a multi-employer plan (see paragraphs 29 and 30).*
38. State plans are established by legislation to cover all enterprises (or all enterprises 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 enterprise. Some plans established by an enterprise provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.
39. State plans are characterised as defined benefit or defined contribution in nature based on the enterprise's obligation under the plan. Many state plans are funded in a manner such that contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Nevertheless, in most state plans, the enterprise has no obligation to pay those future benefits: its only obligation is to pay the contributions as they fall due and if the enterprise ceases to employ members of the state plan, it will have no obligation to pay the benefits earned by such employees in previous years. For this reason, state plans are normally defined contribution plans. However, in the rare cases when a state plan is a defined benefit plan, an enterprise applies the treatment prescribed in paragraphs 29 and 30.

Insured Benefits

40. *An enterprise may pay insurance premiums to fund a post-employment benefit plan. The enterprise should treat such a plan as a defined contribution plan unless the enterprise will have (either directly, or indirectly through the plan) an 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 relating to employee service in the current and prior periods.

If the enterprise retains such an obligation, the enterprise should treat the plan as a defined benefit plan.

41. The benefits insured by an insurance contract need not have a direct or automatic relationship with the enterprise's obligation for employee benefits. Post-employment benefit plans involving insurance contracts are subject to the same distinction between accounting and funding as other funded plans.
42. Where an enterprise funds a post-employment benefit obligation by contributing to an insurance policy under which the enterprise (either directly, indirectly through the plan, through the mechanism for setting future premiums or through a related party relationship with the insurer) retains an obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the enterprise:
- (a) accounts for a qualifying insurance policy as a plan asset (see paragraph 7); and
 - (b) recognises other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 102).
43. Where an insurance policy is in the name of a specified plan participant or a group of plan participants and the enterprise does not have any obligation to cover any loss on the policy, the enterprise has no obligation to pay benefits to the employees and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the enterprise no longer has an asset or a liability. Therefore, an enterprise treats such payments as contributions to a defined contribution plan.

Post-employment Benefits: Defined Contribution Plans

44. Accounting for defined contribution plans is straightforward because the reporting enterprise's obligation for each period is determined by the amounts to be contributed for that period.

Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

Recognition and Measurement

45. *When an employee has rendered service to an enterprise during a period, the enterprise should 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. If the contribution already paid exceeds the contribution due for service before the balance sheet date, an enterprise should 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, unless another Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, AS 2 Valuation of Inventories and AS 10, Accounting for Fixed Assets).*

46. *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 should be discounted using the discount rate specified in paragraph 78.*

Disclosure

47. *An enterprise should disclose the amount recognised as an expense for defined contribution plans.*

48. Where required by AS 18 *Related Party Disclosures* an enterprise discloses information about contributions to defined contribution plans for key management personnel.

Post-employment Benefits: Defined Benefit Plans

49. Accounting for defined benefit plans is complex

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

Recognition and Measurement

50. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an enterprise, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting enterprise and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an enterprise's ability to make good any shortfall in the fund's assets. Therefore, the enterprise is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognised for a defined benefit plan is not necessarily the amount of the contribution due for the period.

51. Accounting by an enterprise for defined benefit plans involves the following steps:

(a) using actuarial techniques 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 enterprise to determine how much benefit is attributable to the current and prior periods (see paragraphs 68-72) and to make 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 (see paragraphs 73-91);

(b) discounting that benefit using the Projected Unit Credit Method in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 65-67);

(c) determining the fair value of any plan assets (see paragraphs 99-101);

(d) determining the total amount of actuarial gains and losses (see paragraphs 92-93);

(e) where a plan has been introduced or changed,

determining the resulting past service cost (see paragraphs 94-98); and

- (f) where a plan has been curtailed or settled, determining the resulting gain or loss (see paragraphs 109-114).

Where an enterprise has more than one defined benefit plan, the enterprise applies these procedures for each material plan separately.

52. In some cases, estimates, averages and simplified computations may provide a reliable approximation of the detailed computations illustrated in this Statement.

Accounting for the Obligation under a Defined Benefit Plan

53. *An enterprise should account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any other obligation that arises from the enterprise's informal practices. Informal practices give rise to an obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of such an obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.*

54. The formal terms of a defined benefit plan may permit an enterprise to terminate its obligation under the plan. Nevertheless, it is usually difficult for an enterprise to cancel a plan if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an enterprise which is currently promising such benefits will continue to do so over the remaining working lives of employees.

Balance Sheet

55. *The amount recognised as a defined benefit liability should be the net total of the following amounts:*
- (a) *the present value of the defined benefit obligation at the balance sheet date (see paragraph 65);*
- (b) *minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see para-*

graphs 99-101).

56. The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets.
57. *An enterprise should determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.*
58. An enterprise usually involves a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, the actuary may carry out a detailed valuation of the obligation before the balance sheet date. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) between the date of valuation and the balance sheet date.
59. *The amount determined under paragraph 55 may be negative (an asset). An enterprise should measure the resulting asset at the lower of:*
- (a) *the amount determined under paragraph 55; and*
- (b) *the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits should be determined using the discount rate specified in paragraph 78.*
60. An asset may arise where a defined benefit plan has been overfunded or in certain cases where actuarial gains are recognised. An enterprise recognises an asset in such cases because:
- (a) the enterprise controls a resource, which is the ability to use the surplus to generate future benefits;
- (b) that control is a result of past events (contributions paid by the enterprise and service rendered by the employee); and
- (c) future economic benefits are available to the enterprise in the form of a reduction in future contributions or a cash refund, either directly to the enterprise or indirectly to another plan in deficit.

Example Illustrating Paragraph 59

A defined benefit plan has the following characteristics:

	(Amount in Rs.)
Present value of the obligation	1,100
Fair value of plan assets	<u>(1,190)</u>
Negative amount determined under paragraph 55	<u>(90)</u>
Present value of available future refunds and reductions in future contributions	<u>80</u>
<i>Limit under paragraph 59</i>	<u>80</u>

Therefore, the enterprise recognises an asset of Rs. 80 and discloses that the limit reduced the carrying amount of the asset by Rs. 10 (see paragraph 117(c)(iv)).

Statement of Profit and Loss

61. An enterprise should recognise the net total of the following amounts as expense or (subject to paragraph 59) income, except to the extent that another Accounting Standard requires or permits their inclusion in the cost of an asset:

- (a) *current service cost (see paragraphs 64-91);*
- (b) *interest cost (see paragraph 82);*
- (c) *the expected return on any plan assets (see paragraphs 106-108) and on any reimbursement rights (paragraph 102);*
- (d) *actuarial gains and losses;*
- (e) *past service cost; and*
- (f) *the effect of any curtailments or settlements (see paragraphs 109 and 110).*

62. Other Accounting Standards require the inclusion of certain employee benefit costs within the cost of assets such as inventories or tangible fixed assets (see AS 2 *Valuation of Inventories* and AS 10 *Accounting for Fixed Assets*). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 61.

Illustrative Example

63. Appendix A contains an example describing the components of the amounts recognised in the balance sheet and statement of profit and loss in respect of defined benefit plans.

Recognition and Measurement: Present Value of Defined Benefit Obligations and Current Service Cost

64. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate 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 (see paragraphs 65-67);
 - (b) attribute benefit to periods of service (see paragraphs 68-72); and
 - (c) make actuarial assumptions (see paragraphs 73-91).

Actuarial Valuation Method

65. An enterprise should use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

66. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) considers each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 68-72) and measures each unit separately to build up the final obligation (see paragraphs 73-91).
67. An enterprise discounts the whole of a post-employment benefit obligation, even if part of the obligation falls due within twelve months of the balance sheet date.

Example Illustrating Paragraph 66

A lump sum benefit, equal to 1% of final salary for each year of service, is payable on termination of service. The salary in year 1 is Rs. 10,000 and is assumed to increase at 7% (compound) each year resulting in Rs. 13,100 at the end of year 5. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to

reflect the probability that the employee may leave the enterprise at an earlier or later date.

(Amount is Rs.)					
Year	1	2	3	4	5
<i>Benefit attributed to:</i>					
- prior years	0	131	262	393	524
- current year (1% of final salary)	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>	<u>131</u>
- current and prior years	<u>131</u>	<u>262</u>	<u>393</u>	<u>524</u>	<u>655</u>
Opening Obligation (see note 1)	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current Service Cost (see note 2)	<u>89</u>	<u>98</u>	<u>108</u>	<u>119</u>	<u>131</u>
Closing Obligation (see note 3)	<u>89</u>	<u>196</u>	<u>324</u>	<u>476</u>	<u>655</u>

Note:

1. The Opening Obligation is the present value of benefit attributed to prior years.
2. The Current Service Cost is the present value of benefit attributed to the current year.
3. The Closing Obligation is the present value of benefit attributed to current and prior years.

Attributing Benefit to Periods of Service

68. In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an enterprise should attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an enterprise should 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.

69. The Projected Unit Credit Method requires an enterprise 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 enterprise attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an enterprise expects to pay in future reporting periods. Actuarial techniques allow an enterprise to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples Illustrating Paragraph 69

1. A defined benefit plan provides a lump-sum benefit of Rs. 100 payable on retirement for each year of service.

A benefit of Rs. 100 is attributed to each year. The current service cost is the present value of Rs.100. The present value of the defined benefit obligation is the present value of Rs. 100, multiplied by the number of years of service up to the balance sheet date.

If the benefit is payable immediately when the employee leaves the enterprise, 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 balance sheet date.

2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 60.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% 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 0.2% of final salary, multiplied by the number of years of service up to the balance sheet date. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 60.

70. 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 before the vesting date gives rise to an obligation because, at each successive balance sheet date, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an enterprise considers the probability that some employees may not satisfy any vesting requirements. Similarly, 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.

Examples Illustrating Paragraph 70

1. A plan pays a benefit of Rs. 100 for each year of service. The benefits vest after ten years of service.

A benefit of Rs. 100 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.

2. A plan pays a benefit of Rs. 100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

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 Rs. 100 is attributed to each subsequent year.

71. The obligation increases until 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, if an employee's service in later years will lead to a materially higher level of benefit

than in earlier years, an enterprise attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

Examples Illustrating Paragraph 71

1. A plan pays a lump-sum benefit of Rs. 1,000 that vests after ten years of service. The plan provides no further benefit for subsequent service.

A benefit of Rs. 100 (Rs. 1,000 divided by ten) is attributed to each of the first ten years. 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.

2. A plan pays a lump-sum retirement benefit of Rs. 2,000 to all employees who are still employed at the age of 50 after twenty years of service, or who are still employed at the age of 60, regardless of their length of service.

For employees who join before the age of 30, service first leads to benefits under the plan at the age of 30 (an employee could leave at the age of 25 and return at the age of 28, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 50 will lead to no material amount of further benefits. For these employees, the enterprise attributes benefit of Rs. 100 (Rs. 2,000 divided by 20) to each year from the age of 30 to the age of 50.

For employees who join between the ages of 30 and 40, service beyond twenty years will lead to no material amount of further benefits. For these employees, the enterprise attributes benefit of Rs. 100 (Rs. 2,000 divided by 20) to each of the first twenty years.

For an employee who joins at the age of 50, service beyond ten years will lead to no material amount of further benefits. For this employee, the enterprise attributes benefit of Rs. 200 (Rs. 2,000 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.

3. A post-employment medical plan reimburses 40% 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.

Under the plan's benefit formula, the enterprise attributes 4% of the present value of the expected medical costs (40% divided by ten) to each of the first ten years and 1% (10% divided by ten) to each of the second ten years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within ten years, no benefit is attributed.

4. A post-employment medical plan reimburses 10% 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.

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 enterprise attributes benefit on a straight-line basis under paragraph 69. 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 1% 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.

72. 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 ser-

vice before the balance sheet date, but do not create an additional obligation. Therefore:

(a) for the purpose of paragraph 68(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) the amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Example Illustrating Paragraph 72

Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% 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.

Actuarial Assumptions

73. ***Actuarial assumptions comprising demographic assumptions and financial assumptions should be unbiased and mutually compatible. Financial assumptions should be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.***

74. Actuarial assumptions are an enterprise's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) 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; and
- (iv) claim rates under medical plans; and

(b) financial assumptions, dealing with items such as:

- (i) the discount rate (see paragraphs 78-82);

- (ii) future salary and benefit levels (see paragraphs 83-87);
 - (iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 88-91); and
 - (iv) the expected rate of return on plan assets (see paragraphs 106-108).
75. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.
76. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets 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.
77. An enterprise determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, where the benefit is index-linked and there is a deep market in index-linked bonds of the same currency and term.

Actuarial Assumptions: Discount Rate

78. *The rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.*
79. One actuarial assumption which has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the enterprise-specific credit risk borne by the enterprise's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.
80. The discount rate reflects the estimated timing of benefit payments. In practice, an enterprise often achieves this 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.

81. In some cases, there may be no government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, an enterprise 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. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available government bonds.
82. 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, taking account of any material changes in the obligation. The present value of the obligation will differ from the liability recognised in the balance sheet because the liability is recognised after deducting the fair value of any plan assets. [Appendix A illustrates the computation of interest cost, among other things]

Actuarial Assumptions: Salaries, Benefits and Medical Costs

83. *Post-employment benefit obligations should 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 obligation that goes beyond those terms) at the balance sheet date; and*
 - (c) *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 balance sheet date; 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.*
84. Estimates of future salary increases take account of inflation, seniority, promotion and other rele-

vant factors, such as supply and demand in the employment market.

85. If the formal terms of a plan (or an obligation that goes beyond those terms) require an enterprise to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example:

- (a) the enterprise 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; or
- (b) actuarial gains have already been recognised in the financial statements and the enterprise is obliged, by either the formal terms of a plan (or an obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 96(c)).

86. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or an obligation that goes beyond those terms) at the balance sheet date. Such changes will result in:

- (a) past service cost, to the extent that they change benefits for service before the change; and
- (b) current service cost for periods after the change, to the extent that they change benefits for service after the change.

87. 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.

88. Assumptions about medical costs should take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

89. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An enterprise estimates future medical costs on the basis of historical data about the enterprise's own experience, supplemented where necessary by historical data from other enterprises,

insurance companies, medical providers or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilisation or delivery patterns and changes in the health status of plan participants.

90. 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. Therefore, historical data is adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the historical data. It is also adjusted where there is reliable evidence that historical trends will not continue.

91. Some post-employment health care plans require employees to contribute to the medical costs covered by the plan. Estimates of future medical costs take account of any such contributions, based on the terms of the plan at the balance sheet date (or based on any 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 (see paragraphs 83(c) and 87).

Actuarial Gains and Losses

92. Actuarial gains and losses should be recognised immediately in the statement of profit and loss as income (subject to paragraph 59) or expense.

93. 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 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 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 (see paragraphs 106-108).

Past Service Cost

94. Past service cost should be recognised immediately in the statement of profit and loss as an expense.

95. Past service cost arises when an enterprise introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Past service cost is measured as the change in the liability resulting from the amendment (see paragraph 65).

Example Illustrating Paragraph 95

An enterprise operates a pension plan that provides a pension of 2% of final salary for each year of service. On 1 January 20X5 the enterprise improves the pension to 2.5% of final salary for each year of service starting from 1 January 20X1. At the date of the improvement, the present value of the additional benefits for service from 1 January 20X1 to 1 January 20X5 is Rs. 270.

The enterprise recognises Rs. 270 immediately.

96. Past service cost excludes:
- (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) under and over estimates of discretionary pension increases where an enterprise has an 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 already been recognised in the financial statements if the enterprise is obliged, by either the formal terms of a plan (or an 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 (the resulting increase in the obligation is an actuarial loss

- and not past service cost, see paragraph 85(b));
- (d) the increase in vested benefits (not on account of new or improved benefits) when employees complete vesting requirements (there is no past service cost because the estimated cost of benefits was recognised as current service cost as the service was rendered); and
- (e) the effect of plan amendments that reduce benefits for future service (a curtailment).

97. Where an enterprise reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost in the statement of profit and loss.

98. Where an enterprise reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the enterprise treats the change as a single net change.

Recognition and Measurement: Plan Assets

Fair Value of Plan Assets

99. The fair value of any plan assets is deducted in determining the amount recognised in the balance sheet under paragraph 55. When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).
100. Plan assets exclude unpaid contributions due from the reporting enterprise to the fund, as well as any non-transferable financial instruments issued by the enterprise 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.
101. 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, as described in paragraph 55 (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

102. 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, an enterprise should recognise its right to reimbursement as a separate asset. The enterprise should measure the asset at fair value. In all other respects, an enterprise should 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.

103. Sometimes, an enterprise 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. Qualifying insurance policies, as defined in paragraph 7, are plan assets. An enterprise accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 102 does not apply (see paragraphs 40-43 and 101).

104. When an insurance policy is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 102 deals with such cases: the enterprise recognises its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit liability recognised under paragraph 55; in all other respects, the enterprise treats that asset in the same way as plan assets. Paragraph 117(c)(v) requires the enterprise to disclose a brief description of the link between the reimbursement right and the related obligation.

Example Illustrating Paragraphs 102-104

(Amount in Rs.)

Liability recognised in balance sheet being the Present value of obligation	<u>1,258</u>
Rights under insurance policies that exactly match the amount and timing of some of the benefits payable under the plan. Those benefits have a present value of Rs. 1,092.	<u>1,092</u>

105. 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, as described in paragraph 55 (subject to any reduction required if the reimbursement is not recoverable in full).

Return on Plan Assets

106. The expected return on plan assets is a component of the expense recognised in the statement of profit and loss. The difference between the expected return on plan assets and the actual return on plan assets is an actuarial gain or loss.

107. The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected return on plan assets reflects changes in the fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

108. In determining the expected and actual return on plan assets, an enterprise deducts expected administration costs, other than those included in the actuarial assumptions used to measure the obligation.

Example Illustrating Paragraph 107

At 1 January 20X1, the fair value of plan assets was Rs. 10,000. On 30 June 20X1, the plan paid benefits of Rs. 1,900 and received contributions of Rs. 4,900. At 31 December 20X1, the fair value of plan assets was Rs. 15,000 and the present value of the defined benefit obligation was Rs. 14,792. Actuarial losses on the obligation for 20X1 were Rs. 60.

At 1 January 20X1, the reporting enterprise made the following estimates, based on market prices at that date:

	%
Interest and dividend income, after tax payable by the fund	9.25
Realised and unrealised gains on plan assets (after tax)	2.00
Administration costs	<u>(1.00)</u>
Expected rate of return	10.25

For 20X1, the expected and actual return on plan assets are as follows:

	<i>(Amount in Rs.)</i>
<i>Return on Rs. 10,000 held for 12 months at 10.25%</i>	<i>1,025</i>
<i>Return on Rs. 3,000 held for six months at 5% (equivalent to 10.25% annually, compounded every six months)</i>	<i><u>150</u></i>
<i>Expected return on plan assets for 20X1</i>	<i><u><u>1,175</u></u></i>
<i>Fair value of plan assets at 31 December 20X1</i>	<i>15,000</i>
<i>Less fair value of plan assets at 1 January 20X1</i>	<i>(10,000)</i>
<i>Less contributions received</i>	<i>(4,900)</i>
<i>Add benefits paid</i>	<i><u>1,900</u></i>
<i>Actual return on plan assets</i>	<i><u><u>2,000</u></u></i>

The difference between the expected return on plan assets (Rs. 1,175) and the actual return on plan assets (Rs. 2,000) is an actuarial gain of Rs. 825. Therefore, the net actuarial gain of Rs. 765 (Rs. 825 – Rs. 60 (actuarial loss on the obligation)) would be recognised in the statement of profit and loss.

The expected return on plan assets for 20X2 will be based on market expectations at 1/1/X2 for returns over the entire life of the obligation.

Curtailments and Settlements

109. *An enterprise should recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement should comprise:*

- (a) any resulting change in the present value of the defined benefit obligation;*
- (b) any resulting change in the fair value of the plan assets.*

110. *Before determining the effect of a curtailment or settlement, an enterprise should remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).*

111. A curtailment occurs when an enterprise either:

- (a) has a present obligation, arising from the requirement of a statute/regulator or otherwise, to make a material reduction in the num-

ber of employees covered by a plan; or

- (b) amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

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. An event is material enough to qualify as a curtailment if the recognition of a curtailment gain or loss would have a material effect on the financial statements. Curtailments are often linked with a restructuring. Therefore, an enterprise accounts for a curtailment at the same time as for a related restructuring.

112. A settlement occurs when an enterprise enters into a transaction that eliminates all further obligations for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.

113. In some cases, an enterprise acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the enterprise retains an obligation (see paragraph 40) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 102-105 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

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

Example

An enterprise discontinues a business segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the enterprise has a defined benefit obliga-

tion with a net present value of Rs. 1,000 and plan assets with a fair value of Rs. 820. The curtailment reduces the net present value of the obligation by Rs. 100 to Rs. 900.

The effect of the curtailment is as follows:

	Before curtail- ment	Curtail- ment gain	After curtail- ment
Net present value of obligation	1,000	(100)	900
Fair value of plan assets	(820)	-	(820)
Net liability recognised in balance sheet	<u>180</u>	<u>(100)</u>	<u>80</u>

Presentation

Offset

115. *An enterprise should offset an asset relating to one plan against a liability relating to another plan when, and only when, the enterprise:*

- (a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and*
- (b) intends 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.*

Financial Components of Post-employment Benefit Costs

116. This Statement does not specify whether an enterprise should present current service cost, interest cost and the expected return on plan assets as components of a single item of income or expense on the face of the statement of profit and loss.

Disclosure

117. *An enterprise should disclose the following information about defined benefit plans:*

- (a) the enterprise's accounting policy for recognising actuarial gains and losses;*
- (b) a general description of the type of plan;*
- (c) a reconciliation of the assets and liabilities recognised in the balance sheet, showing at least:*
 - (i) the present value at the balance sheet date of defined benefit obligations that*

are wholly unfunded;

- (ii) the present value (before deducting the fair value of plan assets) at the balance sheet date of defined benefit obligations that are wholly or partly funded;*
 - (iii) the fair value of any plan assets at the balance sheet date;*
 - (iv) any amount not recognised as an asset, because of the limit in paragraph 59;*
 - (v) the fair value at the balance sheet date of any reimbursement right recognised as an asset under paragraph 102 (with a brief description of the link between the reimbursement right and the related obligation); and*
 - (vi) the other amounts recognised in the balance sheet;*
- (d)** *the amounts included in the fair value of plan assets for:*
- (i) each category of the reporting enterprise's own financial instruments; and*
 - (ii) any property occupied by, or other assets used by, the reporting enterprise;*
- (e)** *a reconciliation showing the movements during the period in the net liability (or asset) recognised in the balance sheet;*
- (f)** *the total expense recognised in the statement of profit and loss for each of the following, and the line item(s) of the statement of profit and loss in which they are included:*
- (i) current service cost;*
 - (ii) interest cost;*
 - (iii) expected return on plan assets;*
 - (iv) expected return on any reimbursement right recognised as an asset under paragraph 102;*
 - (v) actuarial gains and losses;*
 - (vi) past service cost; and*
 - (vii) the effect of any curtailment or settlement;*
- (g)** *the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset under paragraph 102; and*
- (h)** *the principal actuarial assumptions used as at the balance sheet date, including, where applicable:*
- (i) the discount rates;*

- (ii) *the expected rates of return on any plan assets for the periods presented in the financial statements;*
- (iii) *the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset under paragraph 102;*
- (iv) *the expected rates of salary increases (and of changes in an index or other variable specified in the terms of a plan as the basis for future benefit increases);*
- (v) *medical cost trend rates; and*
- (vi) *any other material actuarial assumptions used.*

An enterprise should disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

118. Paragraph 117(b) requires a general description of the type of plan. Such a description distinguishes, for example, flat salary pension plans from final salary pension plans and from post-employment medical plans. Further detail is not required.
119. When an enterprise has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be the most useful. It may be useful to distinguish groupings by criteria such as the following:
- (a) the geographical location of the plans, for example, by distinguishing domestic plans from foreign plans; or
 - (b) whether plans are subject to materially different risks, for example, by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an enterprise provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

120. Paragraph 30 requires additional disclosures about multi-employer defined benefit plans that are treated as if they were defined contribution plans.
121. Where required by AS 18 *Related Party*

Disclosures an enterprise discloses information about:

- (a) related party transactions with post-employment benefit plans; and
- (b) post-employment benefits for key management personnel.

122. Where required by AS 29 *Provisions, Contingent Liabilities and Contingent Assets* an enterprise discloses information about contingent liabilities arising from post-employment benefit obligations.

Illustrative Disclosures

123. Appendix B contains illustrative disclosures.

Other Long-term Employee Benefits

124. Other long-term employee benefits include, for example:
- (a) long-term compensated 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 payable twelve months or more after the end of the period in which the employees render the related service; and
 - (e) deferred compensation paid twelve months or more after the end of the period in which it is earned.

Recognition and Measurement

125. *The amount recognised as a liability for other long-term employee benefits should be the net total of the following amounts:*

- (a) *the present value of the defined benefit obligation at the balance sheet date (see paragraph 65);*
- (b) *minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 99-101).*

In measuring the liability, an enterprise should apply paragraphs 50-91, excluding paragraphs 55 and 61. An enterprise should apply

paragraph 102 in recognising and measuring any reimbursement right.

126. *For other long-term employee benefits, an enterprise should recognise the net total of the following amounts as expense or (subject to paragraph 59) income, except to the extent that another Accounting Standard requires or permits their inclusion in the cost of an asset:*
- (a) current service cost (see paragraphs 64-91);*
 - (b) interest cost (see paragraph 82);*
 - (c) the expected return on any plan assets (see paragraphs 106-108) and on any reimbursement right recognised as an asset (see paragraph 102);*
 - (d) actuarial gains and losses, which should all be recognised immediately;*
 - (e) past service cost, which should all be recognised immediately; and*
 - (f) the effect of any curtailments or settlements (see paragraphs 109 and 110).*

127. 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.

Disclosure

128. Although this Statement does not require specific disclosures about other long-term employee benefits, other Accounting Standards may require disclosures, for example, where the expense resulting from such benefits is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period (see AS 5 *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies*). Where required by AS 18 *Related Party Disclosures* an enterprise discloses information about other long-term employee benefits for key management personnel.

Termination Benefits

129. This Statement deals with termination benefits separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service.

Recognition

130. *An enterprise should recognise termination benefits as a liability and an expense when, and only when:*

- (a) the enterprise has a present obligation as a result of a past event;*
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and*
- (c) a reliable estimate can be made of the amount of the obligation.*

131. An enterprise may be committed, by legislation, by contractual or other agreements with employees or their representatives or by an obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:

- (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and
- (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the enterprise.

132. Some employee benefits are payable regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits may be described as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an enterprise accounts for them as post-employment benefits. Some enterprises

provide a lower level of benefit for voluntary termination at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the enterprise. The additional benefit payable on involuntary termination is a termination benefit.

133. Termination benefits are recognised as an expense immediately.
134. Where an enterprise recognises termination benefits, the enterprise may also have to account for a curtailment of retirement benefits or other employee benefits (see paragraph 109).

Measurement

135. *Where termination benefits fall due more than 12 months after the balance sheet date, they should be discounted using the discount rate specified in paragraph 78.*

Disclosure

136. Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. As required by AS 29, *Provisions, Contingent Liabilities and Contingent Assets* an enterprise discloses information about the contingent liability unless the possibility of an outflow in settlement is remote.
137. As required by AS 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies* an enterprise discloses the nature and amount of an expense if it is of such size, nature or incidence that its disclosure is relevant to explain the performance of the enterprise for the period. Termination benefits may result in an expense needing disclosure in order to comply with this requirement.
138. Where required by AS 18, *Related Party Disclosures* an enterprise discloses information about termination benefits for key management personnel.

Transitional Provisions

Employee Benefits other than Defined Benefit Plans and Termination Benefits

139. *Where an enterprise first adopts this Statement for employee benefits, the difference between the liability in respect of employee benefits other than defined benefit plans and termination benefits, as per this Statement, existing on the date of adopting this Statement and the liability that would have been recognised at the same date under the enterprise's previous accounting policy, should be adjusted against opening balance of revenue reserves.*

Defined Benefit Plans

140. *On first adopting this Statement, an enterprise should determine its transitional liability for defined benefit plans at that date as:*
 - (a) *the present value of the obligation (see paragraph 65) at the date of adoption;*
 - (b) *minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 99-101).*
141. *The difference between the transitional liability and the liability that would have been recognised at the same date under the enterprise's previous accounting policy, should be adjusted immediately, against opening balance of revenue reserves.*

Termination Benefits

142. This Statement requires immediate expensing of expenditure on termination benefits (including VRS expenditure). However, where an enterprise incurs expenditure on termination benefits within three years of this Statement first coming into effect, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period subject to a maximum of 5 years.

Appendix A

Illustrative Example

The appendix is illustrative only and does not form part of the Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning. Extracts from statements of profit and loss and balance sheets are provided to show the effects of the transactions described below. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Accounting Standards.

Background Information

The following information is given about a funded defined benefit plan. To keep interest computations simple, all transactions are assumed to occur at the year end. The present value of the obligation and the fair value of the plan assets were both Rs. 1,000 at 31 March, 20X5. (Amount in Rs.)

	20X4-X5	20X5-X6	20X6-X7
Discount rate at start of year	10.0%	9.0%	8.0%
Expected rate of return on plan assets at start of year	12.0%	11.1%	10.3%
Current service cost	130	140	150
Benefits paid	150	180	190
Contributions paid	90	100	110
Present value of obligation at 31 March	1,141	1,197	1,295
Fair value of plan assets at 31 March	1,092	1,109	1,093

In 20X5-X6, the plan was amended to provide additional benefits with effect from 1 April 20X5. The present value as at 1 April 20X5 of additional benefits for employee service before 1 April 20X5 was Rs. 80. The past service cost arising from additional benefits is recognised immediately (paragraph 94 of the Statement).

Changes in the Present Value of the Obligation and in the Fair Value of the Plan Assets

The first step is to summarise the changes in the present value of the obligation and in the fair value of the plan assets and use this to determine the amount of the actuarial gains or losses for the period. These are as follows: (Amount in Rs.)

	20X4-X5	20X5-X6	20X6-X7
Present value of obligation, 1 April	1,000	1,141	1,197
Interest cost	100	103	96
Current service cost	130	140	150
Past service cost	-	80	-
Benefits paid	(150)	(180)	(190)
Actuarial (gain) loss on obligation (balancing figure)	61	(87)	42
Present value of obligation, 31 March	1,141	1,197	1,295
Fair value of plan assets, 1 April	1,000	1,092	1,109
Expected return on plan assets	120	121	114
Contributions	90	100	110
Benefits paid	(150)	(180)	(190)
Actuarial gain (loss) on plan assets (balancing figure)	32	(24)	(50)
Fair value of plan assets, 31 March	1,092	1,109	1,093
Total actuarial gain (loss) to be recognised immediately as per the Statement	(29)	63	(92)

Amounts Recognised in the Balance Sheet and Statements of Profit and Loss, and Related Analyses

The final step is to determine the amounts to be recognised in the balance sheet and statement of profit and loss, and the related analyses to be disclosed under paragraphs 117(c), (e), (f) and (g) of the Statement. These are as follows: (Amount in Rs.)

	20X4-X5	20X5-X6	20X6-X7
Present value of the obligation	1,141	1,197	1,295
Fair value of plan assets	(1,092)	(1,109)	(1,093)
Liability recognised in balance sheet	49	88	202
Current service cost	130	140	150
Interest cost	100	103	96
Expected return on plan assets	(120)	(121)	(114)
Net actuarial (gain) loss recognised in year	29	(63)	92
Past service cost	-	80	-
Expense recognised in the statement of profit and loss	139	139	224
Movements in the net liability recognised in the balance sheet, to be disclosed under paragraph 117(e):			
Opening net liability	-	49	88
Expense as above	139	139	224
Contributions paid	(90)	(100)	(110)
Closing net liability	49	88	202
Actual return on plan assets, to be disclosed under paragraph 117(g):			
Expected return on plan assets	120	121	114
Actuarial gain (loss) on plan assets	32	(24)	(50)
Actual return on plan assets	152	97	64

Note: see example illustrating paragraphs 102-105 for presentation of reimbursements.

Appendix B

Illustrative Disclosures

The appendix is illustrative only and does not form part of the Statement. The purpose of the appendix is to illustrate the application of the Statement to assist in clarifying its meaning. Extracts from notes to the financial statements show how the required disclosures may be aggregated in the case of a large multi-national group that provides a variety of employee benefits. These extracts do not necessarily conform with all the disclosure and presentation requirements of other Accounting Standards. In particular, they do not illustrate the disclosure of:

- (a) *accounting policies for employee benefits (see AS 1 Disclosure of Accounting Policies). Under paragraph 117(a) of the Statement, this disclosure should include the enterprise's accounting policy for recognising actuarial gains and losses; or*
- (b) *employee benefits granted to directors and key management personnel (see AS 18 Related Party Disclosures).*

Employee Benefit Obligations

The amounts (in Rs.) recognised in the balance sheet are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X5	20X4	20X5	20X4
Present value of funded obligations	12,310	11,772	2,819	2,721
Fair value of plan assets	<u>(11,982)</u>	<u>(11,188)</u>	<u>(2,480)</u>	<u>(2,415)</u>
	328	584	339	306
Present value of unfunded obligations	<u>5,912</u>	<u>5,456</u>	<u>5,191</u>	<u>5,166</u>
Net liability in balance sheet	<u>6,240</u>	<u>6,040</u>	<u>5,530</u>	<u>5,472</u>
Amounts in the balance sheet: liabilities	6,451	6,278	5,530	5,472
assets	<u>(211)</u>	<u>(238)</u>	<u>-</u>	<u>-</u>
Net liability in balance sheet	<u>6,240</u>	<u>6,040</u>	<u>5,530</u>	<u>5,472</u>

The pension plan assets include ordinary shares issued by [name of reporting enterprise] with a fair value of 317 (20X4: 281). Plan assets also include property occupied by [name of reporting enterprise] with a fair value of 200 (20X4: 185).

The amounts (in Rs.) recognised in the statement of profit and loss are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X5	20X4	20X5	20X4
Current service cost	1,679	1,554	471	411
Interest on obligation	1,890	1,650	819	705
Expected return on plan assets	(1,392)	(1,188)	(291)	(266)
Net actuarial losses (gains) recognised in year	90	(187)	-	-
Past service cost	200	200	-	-
Losses (gains) on curtailments and settlements	<u>221</u>	<u>(47)</u>	<u>-</u>	<u>-</u>
Total, included in 'staff costs'	<u>2,688</u>	<u>1,982</u>	<u>999</u>	<u>850</u>
Actual return on plan assets	<u>1,232</u>	<u>1,205</u>	<u>275</u>	<u>254</u>

Movements in the net liability recognised in the balance sheet are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	20X5	20X4	20X5	20X4
Net liability at start of year	6,040	5,505	5,472	5,439
Net expense recognised in the statement of profit and loss	2,688	1,982	999	850
Contributions	(2,261)	(1,988)	(941)	(817)
Exchange differences on foreign plan	(227)	221	-	-
Liabilities acquired in an amalgamation in the nature of purchase	<u>-</u>	<u>320</u>	<u>-</u>	<u>-</u>
Net liability at end of year	<u>6,240</u>	<u>6,040</u>	<u>5,530</u>	<u>5,472</u>
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):			20X5	20X4
Discount rate at 31 March			10.0%	9.1%
Expected return on plan assets at 31 March			12.0%	10.9%
Future salary increases			5%	4%
Future pension increases			3%	2%
Proportion of employees opting for early retirement			30%	30%
Annual increase in health care costs			8%	8%
Future changes in maximum state health care benefits			3%	2%

The group also participates in an industry-wide defined benefit plan which provides pensions linked to final salaries and is funded in a manner such that contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period. It is not practicable to determine the present value of the group's obligation or the related current service cost as the plan computes its obligations on a basis that differs materially from the basis used in [name of reporting enterprise]'s financial statements. [describe basis] On that basis, the plan's financial statements to 30 September 20X3 show an unfunded liability of Rs. 27,525. The unfunded liability will result in future payments by participating employers. The plan has approximately 75,000 members, of whom approximately 5,000 are current or former employees of [name of reporting enterprise] or their dependants. The expense recognised in the statement of profit and loss, which is equal to contributions due for the year, and is not included in the above amounts, was Rs. 230 (20X4:Rs. 215). The group's future contributions may be increased substantially if other enterprises withdraw from the plan.

Appendix C

Note: This Appendix is not a part of the Exposure Draft. The purpose of this appendix is only to bring out the major differences between Exposure Draft of revised Accounting Standard 15 and corresponding International Accounting Standard (IAS) 19.

Comparison with IAS 19, Employee Benefits

The Exposure Draft of revised AS 15 differs from International Accounting Standard (IAS) 19, Employees Benefits, in the following major respects:

1. Recognition of Actuarial Gains and Losses

IAS 19 provides an option to recognise actuarial gains and losses either:

- (i) by following a 'Corridor Approach', which results in deferred recognition of the actuarial gains and losses, or
- (ii) immediately in the statement of profit and loss.

The Exposure Draft of revised AS 15 does not admit an option and requires that actuarial gains and losses should be recognised immediately in the statement of profit and loss. The following are the reasons of not allowing adoption of 'Corridor Approach' in the Exposure Draft of revised AS 15:

- (a) Deferred recognition and 'corridor' approaches are complex, artificial and difficult to understand. They add to cost by requiring enterprises to keep complex records. They also require complex provisions to deal with curtailments, settlements and transitional matters. Also, as such approaches are not used for other uncertain assets and liabilities, it is not appropriate to use the same for post-employment benefits.
- (b) Immediate recognition of actuarial gains and losses represents faithfully the enterprise's financial position. An enterprise will report an asset only when a plan is in surplus and a liability only when a plan has a deficit. Paragraph 94 of the Framework for the Preparation and Presentation of Financial Statements notes that the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities. Deferred actuarial losses do not represent future benefits and hence do not meet the Framework's definition

of an asset, even if offset against a related liability. Similarly, deferred actuarial gains do not meet the Framework's definition of a liability.

- (c) Immediate recognition of actuarial gains and losses generates income and expense items that are not arbitrary and that have information content.
- (d) The primary argument for the 'corridor approach' is that in the long term, actuarial gains and losses may offset one another. However, it is not reasonable to assume that all actuarial gains or losses will be offset in future years; on the contrary, if the original actuarial assumptions are still valid, future fluctuations will, on average, offset each other and thus will not offset past fluctuations.
- (e) Deferred recognition by using the 'corridor approach' attempts to avoid volatility. However, a financial measure should be volatile if it purports to represent faithfully transactions and other events that are themselves volatile.
- (f) Immediate recognition is consistent with AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. Under AS 5, the effect of changes in accounting estimates should be included in net profit or loss for the period if the change affects the current period only but not future periods. Actuarial gains and losses are not an estimate of future events, but result from events before the balance sheet date that resolve a past estimate (experience adjustments) or from changes in the estimated cost of employee service before the balance sheet date (changes in actuarial assumptions).
- (g) Any amortisation period (or the width of a 'corridor') is arbitrary.
- (h) Immediate recognition requires less disclosure because all actuarial gains and losses are recognised.
- (i) Immediate recognition is also permitted under IAS 19. Providing only one treatment is in line with the Board's endeavour to eliminate alternatives, to the extent possible.
- (j) The existing AS 15 (1995) also requires immediate recognition of actuarial gains and losses.

2. Recognition of Past Service Costs

In respect of past service costs, IAS 19 makes a distinction between the vested and non-vested benefits. It requires, in general, that in measuring its defined bene-

fit liability, an enterprise should recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an enterprise should recognise past service cost immediately. The Exposure Draft of revised AS 15, on the other hand, does not make such a distinction and requires that past-service costs should be recognised immediately in the statement of profit and loss. It may be noted that existing AS 15 (1995) also does not make such a distinction between vesting and non-vesting and requires expensing of both. It is felt that such a distinction would result in avoidable complications. Accordingly, it would be appropriate to continue with the provisions of AS 15 (1995) in this regard.

3. Actuarial Assumptions - Determination of Discount Rate

In respect of discount rate to be used to discount post-employment benefit obligations (both funded and unfunded), IAS 19 requires that it should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. IAS 19 further provides that in countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

The Exposure Draft of revised AS 15 requires the use of only market yields on government bonds for the above purpose keeping in view the Indian context where, either by legislation or otherwise, the plan assets are required to be invested either wholly or substantially in securities similar to government bonds.

4. Termination Benefits – Recognition of Liability

IAS 19 provides that an enterprise should recognise termination benefits as a liability and an expense when, and only when, the enterprise is demonstrably committed to either (a) terminate the employment of an employee or group of employees before the normal retirement date; or (b) provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. It further provides that an enterprise is demonstrably committed to a termination when, and only when, the enterprise has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The Board felt that merely on the basis of a detailed formal plan, it would not be appropriate to

recognise a provision since a liability cannot be considered to be crystallised at this stage. Accordingly, the Exposure Draft of revised AS 15 provides criteria for recognition of liability in respect of termination benefits on the lines of AS 29, Provisions, Contingent Liabilities and Contingent Assets.

5. Transitional Provisions

In respect of transitional liability for defined benefit plans, IAS 19 provides that if the transitional liability is more than the liability that would have been recognised at the same date under the enterprise's previous accounting policy, the enterprise should make an irrevocable choice to recognise that increase as part of its defined benefit liability (a) immediately, under IAS 8 Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies; or (b) as an expense on a straight-line basis over up to five years from the date of adoption subject to certain conditions. IAS 19 also requires that if the transitional liability is less than the liability that would have been recognised at the same date under the enterprise's previous accounting policy, the enterprise should recognise that decrease immediately under IAS 8.

The Exposure Draft of revised AS 15, on the other hand, provides no choice in this regard, and requires that the difference between the transitional liability as per this Statement and the liability that would have been recognised under the enterprise's previous accounting policy, should be adjusted against the opening balance of revenue reserves. This treatment is in line with the transitional provisions provided in other Indian Accounting Standards. Further, since the Exposure Draft of revised AS 15 does not change the provisions of existing AS 15 (1995) with regard to treatment of actuarial gains and losses and past service costs, it is felt that it would not be appropriate to allow deferred recognition of additional liability in the statement of profit and loss.

In respect of termination benefits, the Exposure Draft of revised AS 15, considering that the industry in India at present is passing through a restructuring phase, specifically contains a transitional provision providing that where an enterprise incurs expenditure on termination benefits within three years of this Statement first coming into effect, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period subject to a maximum of 5 years. IAS 19 does not provide such a transitional provision.

Appendix D

Note: This Appendix is provided to bring out the major differences between Exposure Draft of revised Accounting Standard 15 and the existing AS 15 (1995) with a view to facilitate commentators in sending their comments on the Exposure Draft of revised AS 15.

Major Differences between Exposure Draft of revised AS 15, Employee Benefits, and existing AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers (1995)

The Exposure Draft of revised AS 15 generally deals with all forms of employee benefits, whereas existing AS 15 (1995) deals only with retirement benefits. Therefore, the major differences mentioned below are the major differences between the portion of Exposure Draft of the revised AS 15 dealing with retirement benefits and AS 15 (1995):

- (i) The Exposure Draft of revised AS 15 deals, in detail, with actuarial valuation method and actuarial assumptions. It requires the use of the Projected Unit Credit Method for determination of present value of an enterprise's defined benefit obligations and the related current service cost and, where applicable, past service cost. In respect of actuarial assumptions relating to discount rates, it provides that the discount rate should be determined by reference to market yields at the balance sheet date on government bonds. AS 15 (1995) does not contain such requirements. It only provides that in respect of gratuity and other defined benefits schemes, the accruing liability should generally be determined on the basis of actuarial valuation.
- (ii) The Exposure Draft of revised AS 15 provides that 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 should be discounted using the discount rate specified in the Standard. AS 15 (1995) does not contain such a requirement.
- (iii) The Exposure Draft of revised AS 15 deals in

detail with multi-employer plans, state plans and insured benefits in respect of post employment benefits. Whereas AS 15 (1995) does not specifically deal with this aspect.

- (iv) The Exposure Draft of revised AS 15 specifically deals with accounting for the obligations which are not legal obligations under the formal term of a defined benefit plan but arise because of enterprise's informal practices. AS 15 (1995) does not specifically deal with this aspect.
- (v) The Exposure Draft of revised AS 15 specifically deals with a situation where the amount determined in respect of a defined benefit liability as per the Statement is negative (an asset). In this regard, it provides that an enterprise should measure the resulting asset to the extent of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. AS 15 (1995) does not specifically deal with this aspect.
- (vi) The Exposure Draft of revised AS 15 deals in detail with recognition and measurement of plan assets, reimbursement rights, return on plan assets, curtailment and settlements, etc. AS 15 (1995) does not specifically deal with these aspects.
- (vii) The disclosure requirements of the Exposure Draft of revised AS 15 are significantly elaborate as compared to AS 15 (1995).

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