INDAS 19 – EMPLOYEE BENEFITS

(TOTAL NO. OF QUESTIONS – 9)

INDEX

RTPs QUESTIONS

Q1 (Nov. 18 & 19)

A Ltd. prepares its financial statements to 31st March each year. It operates a defined benefit retirement benefits plan on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2017, the actuaries advised that the present value of the defined benefit obligation was Rs. 6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was Rs. 5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of Rs. 70,00,000 into the plan and the plan paid out benefits of Rs. 42,00,000 to retired members. Both these payments were made on 31st March, 2018.

The actuaries advised that the current service cost for the year ended 3 1st March, 2018 was Rs. 62,00,000. On 28th February, 2018, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by Rs. 15,00,000 from that date.

During the year ended 31st March, 2018, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by Rs. 80,00,000. Before 31st March, 2018, A Ltd. made payments of Rs 75,00,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 2018, the actuaries advised that the present value of the defined benefit obligation was Rs. 6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were Rs 5,60,00,000. Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS.

Solution

All figures are Rs in '000.

On 31st March, 2018, A Ltd. will report a net pension liability in the statement of financial position. The amount of the liability will be 12,000 (68,000 – 56,000).

For the year ended 31st March, 2018, A Ltd. will report the current service cost as an operating cost in the statement of profit or loss. The amount reported will be 6,200. The same treatment applies to the past service cost of 1,500.

For the year ended 31st March, 2018, A Ltd. will report a finance cost in profit or loss based on the net pension liability at the start of the year of 8,000 (60,000 – 52,000). The amount of the finance cost will be 400 (8,000 x 5%).

The redundancy programme represents the partial settlement of the curtailment of a defined benefit obligation. The gain on settlement of 500 (8,000 – 7,500) will be reported in the statement of profit or loss.

Other movements in the net pension liability will be reported as remeasurement gains or losses in other comprehensive income.

For the year ended 31st March, 2018, the remeasurement loss will be 3,400 (Refer W. N.).

Working Note:

Remeasurement of gain or loss

	Rs in '000
Liability at the start of the year (60,000 – 52,000)	8,000
Current service cost	6,200
Past service cost	1,500
Net finance cost	400
Gain on settlement	(500)
Contributions to plan	(7,000)
Remeasurement loss (balancing figure)	3,400
Liability at the end of the year (68,000 – 56,000)	**12,000**

Q2 (May 19)

ABC Limited operates a defined benefit plan which provides to the employees covered under the plan a pension benefit which is equal to 0.75% final salary for each year of completed service. An employee needs to complete minimum of five years' service for becoming eligible to the benefit. On 1st April, 2015, the entity improves the pension benefit to 1% of final salary for each year of service, including prior years. The present value of the defined benefit obligation is therefore, increased by Rs 80 million. Given below is the composition of this amount:

Employees with more than 5 years' of service at 1st April, 2015	Rs 60 million
Employees with less than 5 years' of service at 1st April, 2015	Rs 20 million

The employees in the second category have completed average 2 and half years of service. Hence, they need to complete another two and half year of service until vesting.

Comment on the treatment of Rs 80 million of the defined benefit obligation in the financial statements both as per AS 15 and Ind AS 19.

Solution

- Under AS 15, a past service cost of Rs60 million needs to be recognized immediately, as those benefits are already vested. The remaining Rs20 million cost is recognized on a straight-line basis over the vesting period, i.e., period to two and half years commencing from 1st April, 2015.
- Under Ind AS 19, the entire past service cost of Rs80 million needs to be recognized and charged in profit or loss immediately. ABC Ltd. cannot defer any part of this cost.

Q3 (May 21)

At 1 April, 20X0, the fair value of the Plan Assets was Rs.10,00,000. The Plan paid benefits of Rs.1,90,000 and received contributions of Rs. 4,90,000 on 30 September, 20X0. The company computes the Fair Value of Plan Assets to be Rs.15,00,000 as on 31 March, 20X1 and the Present Value of the Defined Benefit Obligation to amount to Rs.14,79,200 on the same date. Actuarial losses on defined benefit obligation were Rs.6,000.

Compounding happens half-yearly. The normal interest rate for 6 months period is 10% per annum, while the effective interest rate for 12 months period is based on the following data:

At 1 April, 20X0, the company made the following estimates based on market prices at that date:

Particulars	%
Interest and Dividend Income, after tax payable by the fund	9.25
Add: Realized and Unrealized Gains on Plan Assets (after tax)	2.00
Less: Administration Costs	(1.00)
Expected Rate of Return	**10.25**

Determine actual return and expected return on plan asset. Also compute amount to be recognized in 'Other Comprehensive Income' in this case.

Solution

Computation of Expected Return on Plan Assets

Particulars	Rs.
Return on Rs 10,00,000 for 20X0-20X1 at 10.25% =10,00,000 x 10.25%	1,02,500
Add: Return on Rs.3,00,000 for 6 months at 10% Normal Rate = [3,00,000(Inflow Rs. 4,90,000 less Payment Rs. 1,90,000) x 10% 6/12]	15,000
Expected Return on Plan Assets	**1,15,500**

Computation of Actual Return on Plan Assets

Particulars	Rs.
Fair Value of Plan Assets at the year-end – 31 March 20X1	15,00,000
Less: Fair Value of Plan Assets at the beginning – 1 April 20X0	(10,00,000)
Less: Contributions received during the year 20X0-20X1	(4,90,000)
Add: Benefits paid during the year 20X0-20X1	1,90,000
Actual Return on Plan Assets	**2,00,000**

Computation of Net Actuarial Gain

Particulars	Rs.
Actual Return on Plan Assets	2,00,000
Less: Expected Return on Plan Assets	(1,17,500)
Actuarial Gain on Plan Assets	82,500
Less: Actuarial Loss on Defined Benefit Obligation (given)	(6,000)
Net Actuarial Gain to be recognized in 'Other Comprehensive Income'	**76,500**

MTPs QUESTIONS

Q4. (Oct. 18 – 8 Marks)

An employee Roshan has joined a company XYZ Ltd. in the year 2018. The annual emoluments of Roshan as decided is Rs. 14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn annual salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Roshan is expected to grow @ 10% per annum.

The company has inducted Roshan in the beginning of the year and it is expected that he will complete the minimum five-year term before retiring.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

Solution

Calculation of Defined Benefit Obligation

Expected last drawn salary = Rs. 14,90,210 x 110% x 110% x 110% x 110% x 110%
= Rs. 24,00,000

Defined Benefit Obligation (DBO) = Rs. 24,00,000 x 25% x 5 = Rs. 30,00,000

Amount of Rs. 6,00,000 will be charged to Profit and Loss Account of the company every year as cost for Defined Benefit Obligation.

Calculation of Current Service Cost

Yr	Equal apportioned amount of DBO [i.e. Rs. 30,00,000/5 years]	Discounting @ 8% PV factor	Current service cost (Present Value)
A	B	C	d = b x c
1	6,00,000	0.735 (4 Years)	4,41,000
2	6,00,000	0.794 (3 Years)	4,76,400
3	6,00,000	0.857 (2 Years)	5,14,200
4	6,00,000	0.926 (1 Year)	5,55,600
5	6,00,000	1 (0 Year)	6,00,000

Calculation of Interest Cost to be charged per year

Yr	Opening balance	Interest cost	Current service cost	Closing balance
A	B	c = b x 8%	d	e = b + c + d
1	0	0	4,41,000	4,41,000
2	4,41,000	35,280	4,76,400	9,52,680
3	9,52,680	76,214	5,14,200	15,43,094
4	15,43,094	1,23,447	5,55,600	22,22,141

5	22,22,141	1,77,859*	6,00,000	30,00,000

*Due to approximations used in calculation, this figure is adjusted accordingly.

Q5. (Oct. 19 – 8 Marks)

RKA Private Ltd is an old company established in 1995. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of Rs. 11,000 crores & planning to get listed in the next year.

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 20X1 and 31st March, 20X2.

Rs. in lacs

Particulars	1st April, 20X1	31st March, 20X2
Present value of benefit obligation	1,400	1,580
Fair value of plan assets	1,140	1,275

For the financial year ended 31st March, 20X2, service cost was Rs. 55 lacs. The company made a contribution of an amount of Rs. 111 lacs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%.

As per Ind AS, you are required to –

a) Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 20X2.

b) Give the journal entries in respect of amount(s) to be recognized.

Solution

Extract of the Balance Sheet of RKA Private Ltd as at 31st March, 20X2

Closing net defined liability (1,580 – 1,275) = 305 Lacs

Extract of the Statement of Profit or Loss of RKA Private Ltd for the year ended 31st March, 20X2

Particulars	Rs. in lacs
Service cost	55
Net interest **(Refer W.N.1)**	21
Profit or loss	76
Other comprehensive income:	
Remeasurements (Refer W.N.2)	80
Total	**156**

(b) Journal entries in the books of RKA Private Ltd

Particulars	Rs in lacs	Rs in lacs
Profit & Loss Dr.	76	
Other comprehensive income Dr.	80	
To Cash (Contribution)		111

To Net defined benefit liability **(Refer WN 3)**		45

Working Notes:

1. Computation of Net interest taken to the Statement of Profit or Loss

= Discount rate x Opening net defined benefit liability

= 8% x (1,400 – 1,140) lacs

= 8% x 260 lacs

= 21 lacs (Rounded off to nearest lacs)

2. Computation of Re-measurements

Actuarial gain or loss on defined benefit liability:

Particulars	**Rs. in lacs**
Opening balance of liability	1,400
Current service cost	55
Interest on opening liability (1,400 x 8%)	112
Actuarial loss (Bal. fig)	13
Closing balance of liability	**1,580**

Actual return on plan assets:

Particulars	**Amount Rs. In lacs**
Opening balance of asset	1,140
Cash contribution	111
Actual return (Bal. fig)	24
Closing balance of asset	**1,275**

Net interest on opening balance of plan asset = Rs. 91 lacs (i.e. Rs. 1,140 lacs x 8%) (Rounded off to nearest lacs)

Hence there is a decrease in plan assets due to remeasurement for which computation is as follows:

Actual Return – Net interest on opening plan asset

= Rs. 24 lacs – Rs. 91 lacs

= Rs. 67 lacs.

Net remeasurement would be computed as follows:

Actuarial loss on liability + Loss on return

= Rs. 13 lacs + Rs. 67 lacs

= Rs. 80 lacs.

3. Computation of increase/ decrease in net defined benefit liability:

Particulars	**in lacs**
Opening net liability (1,400 lacs – 1,140 lacs)	260
Closing net liability (1,580 lacs – 1,275 lacs)	305
Increase in liability	**45**

Q6. (RTP – May 20 & MTP – Oct. 20 – 6 Marks) – Similar to Q1

On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at Rs 20,40,000 and the present value of the defined obligation was Rs 21,25,000. On 31st March,20X2 the plan received contributions from XYZ Ltd amounting to Rs 4,25,000 and paid out benefits of Rs 2,55,000. The current service cost for the financial year ending 31 March 20X2 is Rs 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 March 20X2 was Rs 23,80,000, and the present value of the defined benefit obligation was Rs 27,20,000. Provide reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet?

SOLUTION

Reconciliation of Plan assets & Defined benefit obligation

	Plan Assets Rs	**Defined benefit Obligation Rs**
Fair value/present value as at 1st April 20X1	20,40,000	21,25,000
Interest @ 5%	1,02,000	1,06,250
Current service cost		5,10,000
Contributions received	4,25,000	-
Benefits paid	(2,55,000)	(2,55,000)
Return on gain (assets) (balancing figure)	68,000	-
Actuarial Loss (balancing figure)	-	2,33,750
Closing balance as at March 31,20X2	**23,80,000**	**27,20,000**

In the Statement of Profit and loss, the following will be recognised

	Rs
Current service cost	5,10,000
Net interest on net defined liability	
(Rs 1,06,250 – Rs 1,02,000)	4,250

Defined benefit re-measurements recognised in Other Comprehensive Income:

	Rs
Loss on defined benefit obligation	(2,33,750)
Gain on plan assets	68,000

In the Balance sheet, the following will be recognised:

	Rs
Net defined liability (Rs 27,20,000 – Rs 23,80,000)	3,40,000

Q7. (MTP - April. 21 – 8 Marks)

Mr. Niranjan is working for Infotech Ltd. Consider the following particulars:

	Year 20X0-20X1	Year 20X1-20X2
Annual salary	Rs. 30,00,000	Rs. 30,00,000
No. of working days during the year	300 days	300 days
Leave allowed	10 days	10 days
Leave taken	7 days	13 days
Leave unutilized carried forward to next year	3 days	NIL

Based on past experience, Infotech Ltd. assumes that Mr. Niranjan will avail the unutilized leaves of 3 days of 20X0-20X1 in 20X1-20X2.

Infotech Ltd. contends that it will record Rs. 30,00,000 as employee benefits expense in each of the years 20X0-20X1 and 20X1-20X2, stating that the leaves will, in any case, be utilized by 20X1-20X2.

Comment on the accounting treatment proposed to be followed by Infotech Ltd. Also pass journal entries for both the years.

SOLUTION

Particulars	Year 20X0-20X1	Year 20X1-20X2
Annual Salary	Rs. 30,00,000	Rs. 30,00,000
No. of working days (A)	300 days	300 days
Leaves Allowed	10 days	10 days
Leaves Taken (B)	7 days	13 days
Therefore, No. of days worked (A – B)	293 days	287 days
Expense proposed to be recognized by Infotech Ltd.	Rs. 30,00,000	Rs. 30,00,000

Based on the evaluation above, Mr. Niranjan has worked for 6 days more (293 days – 287 days) in 20X0-20X1 as compared to 20X1-20X2.

Since he has worked more in 20X0-20X1 as compared to 20X1-20X2, the accrual concept requires that the expenditure to be recognized in 20X0-20X1 should be more as compared to 20X1-20X2.

Thus, if Infotech Ltd. recognizes the same expenditure of Rs. 30,00,000 for each year, it would be in violation of the accrual concept.

The expenditure to be recognized will be as under:

Particulars	Year 20X0-20X1	Year 20X1-20X2
Annual salary (A)	Rs. 30,00,000	Rs. 30,00,000
No. of working days (B)	300 days	300 days
Salary cost per day (A ÷ B)	Rs. 10,000 per day	Rs. 10,000 per day
No. of days worked (from above)	293 days	287 days
Expense to be recognised: In 20X0-20X1: Rs. 30,00,000 + [Rs. 10,000 per day x 3 days (leaves unutilized expected to be utilized subsequently)]	Rs. 30,30,000	
In 20X1-20X2: Rs. 30,00,000 – [Rs. 10,000 per day – 3 days (excess leave utilized in 20X1-20X2)]		Rs. 29,70,000

Journal Entry for 20X0-20X1

Employee Benefits Expense Account	Dr.	30,30,000	
To Bank Account			30,00,000
To Provision for Leave Encashment			30,000

Journal Entry for 20X1-20X2

Employee Benefits Expense Account	Dr.	29,70,000	
Provision for Leave Encashment Account	Dr.	30,000	
To Bank Account			30,00,000

QUESTIONS FROM PAST EXAM PAPERS

Q8. (May 19 – 5 Marks)

In 2017-18, Diana Ltd. has around 3,000 employees in the company. As per the company policy, the employees are given 30 days of Privilege Leave (PL), 12 days of Sick Leave (SL) and 12 days of Casual Leave. Out of the total PL and SL, 10 PL and 5 SL can be carried forward to next year. On the basis of past trends, it has been noted that 1,000 employees will take 5 days of PL and 2 days of SL and 2,000 employees will avail 10 as PL and 5 as SL. Also, the company has been incurring profits since incorporation. It has been decided in 2017-18 to distribute profits to its employees @ 8% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diana Ltd. is to be around 7%. The profits earned during 2017-18 is Rs 12,000 lakh.

Diana Ltd. also has a post-employment benefit plan available which is in the nature of defined contribution plan where contribution to this fund amounts to Rs 500 lakh which will fall due within 12 months from the end of accounting period. The company has paid Rs 120 lakh to its employees in 2017-18.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Diana Ltd. as per the provisions of relevant Ind AS?

SOLUTION

(i) For short term compensating expenses: Diana. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 1,000 employees and 10 days of PL for remaining 2,000 employees and 2 days of SL for 1,000 employees and 5 days of SL for remaining 2,000 employees in its books as an unused entitlement that has accumulated in2017-2018.

(ii) For profit sharing plan: Diana. Ltd. will recognise Rs 840 lakh (12,000 x 7%) as a liability and expense it in books of accounts.

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

- **(a)** Under Ind AS 19, the amount of Rs 380 lakh (500-120) may be recognised as a liability (accrued expense), after deducting contribution already paid. However, if the contribution already paid would have exceeded the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense); and
- **(b)** Also, Rs 380 lakh will be recognised as an expense in this case study which will be disclosed as an expense in the statement of profit and loss.

Q9. (Nov. 20)

Diamond Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in financial year 2019-20. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and sick leave, 10 PL leave and 5 sick leave can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Also, the company has been earning profits since 2010. It has decided in financial year 2019-20 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diamond Pvt. Ltd. is expected to be around 3.5%. The profits earned during the financial year 2019-20 are ₹ 4,000 crores.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 40 crores to this plan in financial year 2019-20.

What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd.?

SOLUTION

(a) *Treatment of short-term compensating absences: Diamond Pvt. Ltd. will recognise a liability in its books to the extent of 5 days of PL for 200 employees and 10 days of PL for remaining 800 employees and 2 days of SL for 200 employees and 5 days of SL for remaining 800 employees in its books as an unused entitlement that has accumulated in 2019-2020 as short-term compensated absences.*

(b) *Treatment of profit-sharing plan: Diamond Pvt. Ltd. will recognise Rs. 140 crores (4,000 x 3.5%) as a liability and expense in its books of account.*

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

Under Ind AS 19, the amount of Rs. 160 crores (200-40) will be recognised as a liability (accrued expense), after deducting any contribution already paid i.e. Rs. 40 crores (with contribution of Rs. 200 crores to the plan) and an expense in the statement of profit and loss.

It can also be seen that the contributions are payable within 12 months from the end of the year in which the employees render the related service; hence, they will not be discounted.