

## Why Actuarial Services are required by Companies for Accounting for Defined Benefit Plans?

### **Why Actuarial Services are required by Companies for Accounting for Defined Benefit Plans?**

This article is prepared to create general awareness about requirement of **Actuarial Services for Accounting for Defined Benefit Plans** amongst Professionals/Company Personnel involved in Finalization of Financial Statements.

In Indian context, Companies needs to comply with Section 133 of **Companies Act 2013** to prepare the Financial Statements at the closure of Financial Statements. The Section 133 of Companies Act 2013 is as under :-

**“133. Central Government to prescribe accounting standards.— The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949 (38 of 1949), in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.”**

**The National Financial Reporting Authority monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed.** The proper compliance and provisions of these Accounting Standards lies on the shoulders of Director/Auditors of the Company. There are some service which can not be rendered by the Auditors are listed in **Section 144** (Auditor not to render certain services). The list of these services are as under :-

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;**
- (e) investment advisory services;
- (f) investment banking services;

**Actuarial Services provided by the Actuary are needed by the company for compliance of following Accounting Standards :-**

**1. Accounting Standard 15 (Revised 2005) – AS 15 (Revised 2005)**

**2. Indian Accounting Standard 19 – IndAS 19**

The Above Accounting Standards give Accounting and Disclosure guidelines for following defined benefit plans :-

**1. Gratuity**

**2. Earned Leave**

**3. Pension**

**4. Post Retirement Medical Plans**

**5. Any type of Long Term Benefit plan where Actuarial Inputs are required.**

**As per Para 19 of AS 15 (Revised 2005)** 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. While the Statement requires that it is the responsibility of the reporting enterprise to measure the obligations under the defined benefit plans, it is recognised that for doing so the enterprise would normally use the services of a **qualified actuary**.

The most frequently Terminologies and Disclosures used in the Actuarial Valuation Reports/Certificates of Actuaries in compliance of **AS 15 (Revised 2005) & IndAS 19** are as under :-

**Few Disclosure Components in compliance of AS 15 (Revised 2005)**

**Changes in present value of obligations during the period**

Present Value of Obligation as at the beginning of the period

Acquisition adjustment

Interest Cost

Past Service Cost

Current Service Cost

Curtailment Cost

Settlement Cost

Benefit Paid

Actuarial (gain)/ loss on obligations

Present Value of Obligation as at the end of the period

Changes in the fair value of plan assets during the period

Fair Value of Plan Assets at the beginning of the period

Acquisition Adjustments

Expected Return on Plan Assets

Contributions

Benefits Paid

Actuarial Gain /( loss) on Plan Assets

Fair Value of Plan Assets at the end of the period

Expense recognized in the statement of profit and loss for the period

Current Service Cost

Past Service Cost

Interest Cost

Expected Return on Plan Assets

Curtailment Cost / (Credit)

Settlement Cost / (Credit)

Net actuarial (gain)/ loss recognized in the period

Expenses Recognized in the statement of Profit & Loss

Amount for the current period

Present Value of Obligation

Plan Assets

Surplus (Deficit)

Experience adjustments on plan liabilities – (Loss)/Gain

Experience adjustments on plan assets – (Loss)/Gain

### **Few Disclosure Components in compliance of IndAS 19**

#### **Movements in the present value of the Defined Benefit Obligations**

Opening defined benefit obligation

Current Service Cost

Interest Cost

Remeasurement (gains)/losses:

Actuarial (gains)/losses arising from changes in demographic assumptions

Actuarial (gains)/losses arising from changes in financial assumptions

Actuarial (gains)/losses arising from experience adjustments

Past service cost, including losses/(gains) on curtailments

Liabilities extinguished on settlements

Liabilities assumed in a business combination

Exchange differences on foreign plans

Benefit Paid

Closing defined benefit obligation

**Movements in the fair value of the Plan Assets**

Opening fair value of plan assets

Interest Income

Remeasurement gain/(loss):

Return on plan assets (excluding amounts included in net interest expense)

Others (describe)

Contributions from the employer

Benefits paid

Closing fair value of plan assets

**Service Cost**

Current Service Cost

Past Service Cost including curtailment gains/losses

Gains or Losses on non routine settlements

Total

**Net Interest Cost (Income)**

Interest Cost on Defined Benefit Obligation

Interest Income on Plan Assets

Net Interest Cost (Income)

**Remeasurements of the net defined benefit liability (asset) (see paragraphs 127-130) in other comprehensive income.**

Return on plan assets (excluding amounts included in net interest expense)

Actuarial (gains)/losses arising from changes in demographic assumptions

Actuarial (gains)/losses arising from changes in financial assumptions

Actuarial (gains)/losses arising from experience adjustments

Other (describe)

Adjustments for restrictions on the defined benefit asset

Components of defined benefit costs recognised in other comprehensive income

**Amount recognised in the Statement of Profit or Loss**

Service Cost

Net Interest Cost (Income)

Defined Benefit Cost recognized in statement of Profit or Loss

**The amount included in the Balance Sheet**

Present value of defined benefit obligation

Fair value of plan assets

Funded status

Restrictions on asset recognised

Other [describe]

Net liability arising from defined benefit obligation

**Illustration of the components of Net Defined Benefit Obligation**

Net defined benefit liability at the start of the period

Service Cost

Net Interest Cost (Income)

Remeasurements

Contribution paid to the Fund

Benefits paid directly by the enterprise

Net defined benefit liability at the end of the period

I have included few components of the Actuarial Reports prepared in compliance of the **AS 15 (Revised 2005) & IndAS 19**. In my next articles, I will more details about actuarial reports

In case of any clarification or requirement of support services for compliance of the above accounting standards, you may contact me at [tikaramchaudhary@gmail.com](mailto:tikaramchaudhary@gmail.com) or call me at 9211637063