

Accounting requirement for Employee Benefit Plans- AS 15 & IndAS 19

Key Differences and Accounting requirement for Employee Benefit Plans in compliance of AS 15 (Revised 2005) and IndAS 19 by Companies at the end of each Financial Year.

This post is an attempt to make awareness about **Key Differences & Accounting Requirement for Employee Benefit Plans** (i.e Gratuity, Leave Encashment, Pension & Post Retirement Medical Benefits etc.) **in compliance of AS 15 (Revised 2005) and IndAS 19** among Directors, Finance Heads, Chartered Accountants, Companies Secretaries, Auditors & other Finance Professional Involved in preparation of Financial Statement of the Companies at the end of each Financial Year.

As per provisions of Section 129 of the **Companies Act 2013**, each company has to prepare the Financial Statement in compliance of Accounting Standards as stipulated in Section 133 of the Companies Act 2013, so that they can give a true and fair view of state of affairs of the company.

Actuarial Services (i.e. **As listed in para 144 of Companies Act 2013 – Auditor not to render certain Services**) are required by the Indian and Multinational Companies to comply with accounting & disclosure requirements for Employee Benefits as laid down in the following Accounting Standards as issued by **The Institute of Chartered Accountants of India (ICAI)**:-

- (i) Accounting Standard 15 (Revised 2005)
- (ii) Indian Accounting Standard (Ind AS) 19

The above Accounting Standards outlines the **accounting requirements for employee benefits**, including short-term benefits (e.g. wages and salaries, annual leave), **post-employment benefits such as retirement benefits, other long-term benefits** (e.g. long service leave) and termination benefits. The standard establishes the **principle that the cost of providing employee benefits should be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable**, and outlines how each category of employee benefits are measured, providing detailed guidance in particular about post-employment benefits.

The compliance of the above standards is **monitored by the National Financial Reporting Authority (NFRA)**. Actuarial Inputs are frequently required for Accounting of Defined Benefit Plan. There are two main categories of Defined Benefit plans, Post – employment Benefits & Other Long Term Benefits. A list of few plans are given below :-

Post-employment benefits (Refer Sub-para b of Para 5 of IndAS 19) , such as the following:

- (i) Retirement benefits (i.e. Pension Plan & Gratuity Plan) ; and
- (ii) Other post-employment benefits (i.e. Post Retirement Medical Plan)

Other long-term employee benefits (Refer Para 153 of IndAS 19), such as the following:

- (i) Long-term paid absences such as long-service or sabbatical leave;
- (ii) Jubilee or other long-service benefits;
- (iii) Long-term disability benefits;
- (iv) Profit-sharing and bonuses; and
- (v) Deferred remuneration

The following criteria is followed by the Auditors/Company Secretaries of the companies for checking the compliance of Accounting Standards :-

- (i) **SME** – In this case, company needs to disclose details as required for Clause (I) of Para 120 of AS 15 (Revised 2005)
- (ii) **Non – SME** – In this case, company needs to disclose details as required for Para 120 of AS 15 (Revised 2005)
- (iii) **Companies/NBFC's with Net-worth more than 250 cr.** – In this case, companies and their subsidiaries has to give disclosure of in compliance of IndAS 19 with comparative numbers of previous 2 years.

IndAS 19 is the standard that governs the measurement, recognition, and disclosures of the employee benefit schemes. Before the introduction of IndAS 19, the companies followed the Revised AS for accounting of the Employee Benefits Liabilities. The key Differences between AS 15 and IndAS 19 are as follows:-

Valuation Interval

Under AS 15 (Revised 2005) – On an Annual Basis

Under IndAS 19 – At the end of every quarter if the books are audited quarterly or on an annual basis

Discount Rate

Under AS 15 (Revised 2005) – Yield on Government Bonds or High-Quality Corporate Bonds

Under IndAS 19 – Yield on Government Bonds

Heads in Statement of Profit & Loss

Under IND AS 19 (Post Employment Benefit Obligation) – Service Cost & Net Interest Cost

Under IND AS 19 (Other Long Term Benefits) – Service Cost, Net Interest Cost & Actuarial Gain/Loss

Under AS 15 – Current Service Cost, Interest Cost, Expected Return on Plan Assets, Actuarial Gain/Loss, Past Service Cost & Gain/Loss on Curtailment/Settlement

Additional Requirement in IND AS 19 (Not present in the AS 15)

Quantitative Disclosures

- Bifurcation of the Actuarial Gains and Losses into Change in Financial Assumptions, Change in Demographic Assumptions and Experience Adjustments
- The sensitivity of the Obligation to the key assumptions
- Maturity Profile of the Liability – This is generally disclosed a number of benefit cash-flows from the plan in the future years and age profile of the employees etc.
- Bifurcation of Assets into Quoted/ Unquoted Securities.
Bifurcation of the Obligation into Vested and Un-vested Portion

Qualitative Disclosures

- Narrative Description of nature of Third Party involved in operation and administration of the plan
 - Narrative Description of risks that the plan poses to the company
 - Asset Liability Matching strategy adopted by the company
- In case of any query in the above matter, you may contact me at 9211637063 or email your queries at tikaramchaudhary@gmail.com