Disclosure requirement in compliance of AS 15 (Revised 2005) for SME and Non SME Companies

Disclosure requirement in compliance of AS 15 (Revised 2005) for SME and Non SME Companies in India

In Indian context, Companies needs to comply with Accounting Standards notified under Section 133 of **Companies Act 2013** to prepare the financial statements at the end each Financial Year.

Ensuring the proper compliance and provisions of these Accounting Standards lies on the Shoulders of Director 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
3. International Accounting Standard – IAS 19 (Revised 2011)
4. Nepal Accounting Financial Reporting Standard – NRFS 19

Compliance of above standards is needed by the Companies for Accounting Provisions of following plan :-

1. Gratuity
2. Earned Leave
3. Sick Leave
4. Half Pay Leave
5. Other Long-Term Leaves.
6. Pension
7. Post Retirement Medical Plans
8. Long Term Service Awards.
9. ESOP Valuations
10. Warranty Valuations
11. Any type of long term benefit plan where Actuarial Inputs are required.

In this article we will understand about the accounting and disclosure requirement for **Accounting Standard 15 (Revised 2005) – AS 15 (Revised 2005)**. In Indian context, compliance of AS 15 (Revised 2005) required by the SME and Non SME Companies :

1. For SME Company – Companies required to provide disclosures as per **para 120 (l)**of the AS 15 (Revised 2005) for the above plans (If applicable).

2. For Non – SME Company – Companies required to provide complete disclosures as per **para 120**of the AS 15 (Revised 2005) for the above plans (If applicable).

The details of disclosure requirement as per para 120 of AS 15 (Revised 2005) is as under :-

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 opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:

(i) current service cost,

(ii) interest cost,

(iii) contributions by plan participants,

(iv) actuarial gains and losses,

(v) foreign currency exchange rate changes on plans measured in a currency different from the enterprise's reporting currency,

(vi) benefits paid,

(vii) past service cost,

(viii) amalgamations,

(ix) curtailments, and

(x) settlements.

(d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 103 showing separately, if applicable, the effects during the period attributable to each of the following:

(i) expected return on plan assets,

(ii) actuarial gains and losses,

(iii) foreign currency exchange rate changes on plans measured in a currency different from

the enterprise's reporting currency

(iv) contributions by the employer,

(v) contributions by plan participants,

(vi) benefits paid,

(vii) amalgamations, and

(viii) settlements.

(f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the balance sheet, showing at least:

(i) the past service cost not yet recognized in the balance sheet (see paragraph 94);

(ii) any amount not recognized as an asset, because of the limit in paragraph 59(b);

(iii) the fair value at the balance sheet date of any reimbursement right recognized as an asset in accordance with paragraph 103 (with a brief description of the link between the reimbursement right and the related obligation); and

(iv) the other amounts recognized in the balance sheet.

(g) the total expense recognized 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 recognized as an asset in accordance with paragraph 103;

(v) actuarial gains and losses;

(vi) past service cost;

(vii) the effect of any curtailment or settlement; and

(viii) the effect of the limit in paragraph 59 (b), i.e., the extent to which the amount determined in accordance with paragraph 55 (if negative) exceeds the amount determined in accordance with paragraph 59 (b).

(h) for each major category of plan assets, which should include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.

(i) the amounts included in the fair value of plan assets for:

(i) each category of the enterprise's own financial instruments; and

(ii) any property occupied by, or other assets used by, the enterprise.

(j) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.

(k) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 103.

(l) 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 recognized as an asset in accordance with paragraph 103;

(iv) medical cost trend rates; and

(v) 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.

Apart from the above actuarial assumptions, an enterprise should include an assertion under the actuarial assumptions to the effect that estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

(m) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:

(i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and

(ii) the accumulated post-employment benefit obligation for medical costs. For the purposes of this disclosure, all other assumptions should be held constant. For plans operating in a high inflation environment, the disclosure should be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

(n) the amounts for the current annual period and previous four annual periods of:

(i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and

(ii) the experience adjustments arising on:

(A) the plan liabilities expressed either as

(1) an amount or

(2) a percentage of the plan liabilities at the balance sheet date, and

(B) the plan assets expressed either as

(1) an amount or

(2) a percentage of the plan assets at the balance sheet date.

(o) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.

The above disclosure requirement is required by the Non SME Indian Companies, whereas for SME Indian Companies, disclosure in respect of Clause (l) of 120 is applicable.

We have more 10 years of experience in providing consultation of compliance of AS 15 (Revised 2005)/IndAS 19/IAS 19. In case of more details in the above matter you may contact me at 9211637063 or tikaramchaudhary@gmail.com