Disclosure requirement in compliance of IndAS 19

Disclosure requirement in compliance of IndAS 19 for Listed & Unlisted Companies, Scheduled Commercial banks, Insurer & NBFC

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/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

Compliance of above standards is needed by the Companies for Accounting 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 post, we will attempt to understand the following points :-

I. Roadmap for applicability of Ind AS 19.

II. Disclosure requirement in Financial Statement for Compliance of Ind AS 19

I. Roadmap for applicability of Ind AS 19. – IND AS 19 is basically standards that have been harmonised with the IFRS to make reporting by Indian companies more globally accessible. Since Indian companies have a far wider global reach now as compared to earlier, the need to converge reporting standards with international standards was felt, which has led to the introduction of IND AS 19 . MCA has notified a phase-wise convergence to IND AS from current accounting standards. IND AS 19 shall be adopted by specific classes of companies based on their Net worth and listing status. Let's see the each of the phases in detail below :-

1. Period on or after 1 st April, 2015

Voluntary Adoption

2.Period on or after 1 st April, 2016

Phase I – All companies with net worth > = INR 500 Crs.

3. Period on or after 1 st April, 2017

Phase II – All Listed Companies & Unlisted Companies with net worth between INR 250-500 Crs.

4. Period on or after 1 st April, 2018

Scheduled commercial banks and Insurer

5. Period on or after 1st April, 2018

NBFC – Phase I (All NBFCs Net worth INR 500 Crores or more)

6. Period on or after 1st April, 2019

NBFC – Phase II (Listed NBFCs Net worth Less than 500 Crores; Unlisted NBFCs 250-500 Crores)

As per Clause **8 & 9 of Rule 4 – Obligation to comply with Indian Accounting Standards (Ind AS)** of **Companies (Indian Accounting Standards) Rules, 2015.**

Clause 8 – ***Once the Indian Accounting Standards (Ind AS) are applied voluntarily, it shall be irrevocable and such companies shall not be required to prepare another set of financial statements in accordance with Accounting Standards specified in Annexure to Companies (Accounting Standards) Rules, 2006.***

Clause 9 – ***Once a company starts following the Indian Accounting Standards (Ind AS) either voluntarily or mandatorily on the basis of criteria specified in sub-***

rule (1), it shall be required to follow the Indian Accounting Standards (Ind AS) for all the subsequent financial statements even if any of the criteria specified in this rule does not subsequently apply to it.

II. Disclosure requirement in Financial Statement for Compliance of Ind AS 19 – 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**. Defined benefit plans** may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity 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 entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity 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.

Accounting by an entity for defined benefit plans involves the following steps:

Accounting by an entity for defined benefit plans involves the following steps:

(a) determining the deficit or surplus. This involves:

(i) using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67–69).

This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70–74) 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 affect the cost of the benefit (see paragraphs 75–98).

(ii) discounting that benefit in order to **determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67–69 and 83–86).**

(iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined benefit obligation.

(b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64).

(c) determining amounts to be recognised in profit or loss:

(i) current service cost (see paragraphs 70–74).

(ii) any past service cost and gain or loss on settlement (see paragraphs 99–112).

(iii) net interest on the net defined benefit liability (asset) (see paragraphs 123–126).

(d) determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

(i) actuarial gains and losses (see paragraphs 128 and 129);

(ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 130); and

(iii) any change in the effect of the asset ceiling (see paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

We have more 10 years of experience in providing consultation of compliance of AS 15 (Revised 2005)/IndAS 19/IAS 19. We have given consultation to Indian as well as Global Multinationals Companies. In case of any requirement for compliance of AS 15 (Revised 2005)/IndAS 19/IAS 19 reporting then you may contact us at 9211637063 or email your query/requirement at tikaramchaudhary@gmail.com