CPE Study Circle Meeting on Ind AS – 19 & 20

Organized by:
SIRC of ICAI

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EMPLOYEE
BENEFITS

Ind AS 19 –Employee benefits

Does not include share – based payment

Includes formal plans or agreements between entity and employees

Legislative requirements where entity are required to contribute to national, state

Informal practices that arise to constructive obligation

Ind AS 19 – Short term employee benefits

Rendered an service during the accounting period

Undiscounted amount of short term employee benefits

Liability or as an expense

Ind AS 19 – Short term employee benefits

Ind AS 19 – Short Term Employee Benefits

In case of accumulated paid absences, when employee render service that increases their entitlement to future paid absence

In the case of non-accumulating paid absences, when the absences occur

Ind AS 19 – Short Term Employee Benefits

The entity has a present legal or constructive obligation to make such payments as a result of past events

A reliable estimate of the obligation can be made

Ind AS 19 – Employee Benefits

An entity has 100 employees, who are each entitled to five working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 31 December 20X1 the average unused entitlement is two days per employee. The entity expects, on the basis of experience that is expected to continue, that 92 employees will take no more than five days of paid sick leave in 20X2 and that the remaining eight employees will take an average of six and a half days each.

A profit-sharing plan requires an entity to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit sharing payments for the year will be 3 per cent of profit. The entity estimates that staff turnover will reduce the payments to 2.5 per cent of profit.

Ind AS 19 – Post employee benefits

Retirement benefits

Other post employment benefits

Ind AS 19 – Post employee benefits

Defined Contribution plan	Defined Benefit plan
Entity's legal or constructive obligation limited to the amount it agreed to the fund	Entity's obligation to provide the agreed benefits to employees
Actuarial and investment risk on employee	**Actuarial and investment risk on employer**
Liability or as an expense	Discounted value – Actuarial valuation

Ind AS 19 – Defined Benefit Plans - Accounting

1. Determine the deficit or surplus

Assets held by a long term employee benefit fund

Qualifying insurance policies

Ind AS 19 – Defined Benefit Plans - Accounting

2. Adjusting the determined amount for any asset ceiling

Surplus in defined benefit plan

Asset ceiling determined using discounted rate

Ind AS 19 – Defined benefit plan - Accounting

Recognise in Profit and Loss

- Current service cost
- Any past service cost or gain on settlement
- Net interest on the net defined benefit liability/ (asset)

Recognise in OCI

- Actuarial gains or losses
- Return on plan of assets
- Any change in effect of asset ceiling

Ind AS 19 – Post employment benefits - Disclosures

Characteristics of defined benefit plan and risk associated

identifies and explains the amounts in its financial statements arising from its defined benefit plans

Amount, timing and uncertainty of the entity’s future cash flow

AS 15 – Disclosures

	Year ended March 17
Present value at the start of period	**100**
Current service cost	20
Interest cost	8
Past service cost	10
Benefits paid	(25)
Actuarial loss/(gain)	(8)
Present value at the end of period	**105**

Fair value of the assets	Year ended March 17
Fair value at start of period	80
Contributions by employer	40
Benefits paid	(25)
Expected return on plan assets	10
Actuarial loss/(gain)	(2)
Fair value at the end of period	103

Employer expense	Year ended March 17
Current service cost	20
Interest cost	8
Past service cost	10
Benefits paid	(10)
Actuarial loss/(gain)	(6)
Employer expense	22

Movements	Year ended March 17
Opening net liability (100-80)	**20**
Add : Employer expense	22
Less : Employer contribution	(40)
Closing net liability (105-103)	**2**

Ind AS 19 – Disclosures

	Year ended March 17
Present value at the start of period	**100**
Current service cost	20
Interest cost	8
Past service cost	10
Benefits paid	(25)
Actuarial loss/(gain)	(8)
Present value at the end of period	**105**

Fair value of the assets	Year ended March 17
Fair value at start of period	80
Contributions by employer	40
Benefits paid	(25)
Interest income	6
Returns above interest income	2
Fair value at the end of period	103

Employer expense	Year ended March 17
Current service cost	20
Interest cost on net	2
Past service cost	10
Employer expense	32

Remeasurement	Year ended March 17
Actuarial loss/(Gain)	**(8)**
Returns above interest income	(2)
Total re-measurements (OCI)	**(10)**

AS 15 Vs Ind AS 19 – Disclosures

Movements under AS 15	Year ended March 17
Opening net liability (100-80)	20
Add : Employer expense	22
Less : Employer contribution	(40)
Closing net liability (105-103)	2

Movements under Ind AS 19	Year ended March 17
Opening net liability (100-80)	20
Add : Employer expense	32
Less : Transfer to OCI	(10)
Less : Employer contribution	(40)
Closing net liability (105-103)	2

Ind AS 19 – Other long term employee benefits

Employee benefits other than short-term employee benefits, post-employment benefits and termination benefits

Recognise the net total of the following amounts in profit or loss

1. Service cost
2. Net interest on the net defined benefit liability
3. Remeasurments of net defined benefit liability

Ind AS 19 – Termination benefits

Entity's decision to terminate an employee's employment

Employee's decision to accept an offer of benefits in exchange for the termination

Ind AS 19 – Termination benefits

If termination benefits are expected to be settled wholly before 12 months after end of reporting – Short term employee benefits

If termination benefits are expected not to be settled wholly before 12 months after end of reporting – Other long term employee benefits

Disclosure

Ind AS 19 – Case studies

Significant differences between AS and Ind AS

	Constructive obligations	Involvement of Actuary	Recognition of actuarial gains and losses
AS 15	Not covered	Does not require but does not specifically encourages	In the statement of profit and loss
Ind AS 19	Covered	Encourages but does not require too	In other comprehensive income

Case Studies 1

Category	Impact
Actuarial gains or losses on defined benefit obligation	Financial
Accounting for ESOP	Financial –Not significant

Accounting method adopted in IGAAP	Accounting method adopted in Ind AS
Actuarial gains or losses on defined benefit obligation such as Gratuity is recognised in P&L	Actuarial gains or losses on defined benefit obligation such as Gratuity is recognised in 'other comprehensive income'
ESOP were accounted using intrinsic value method	ESOP are accounted using fair value method

Actuarial(gain)/loss on defined benefit obligation recognised in OCI is Rs 1.83 crs

Case Studies 2

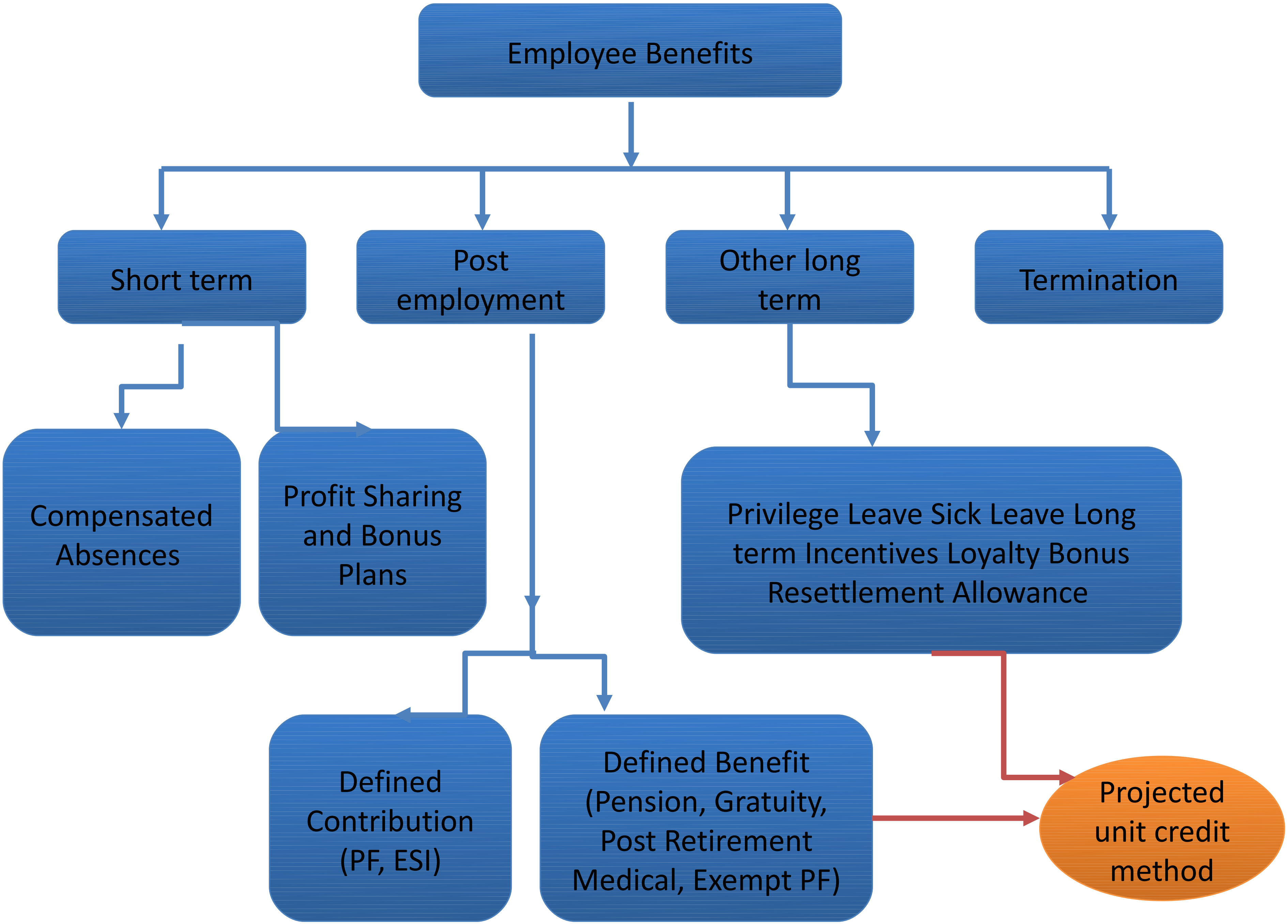
I GAAP	Ind AS
Investment in the Trust as non-current investment at cost of Rs. 350cr as it did not qualify as 'plan asset' under AS 15 on employee benefits	Trust qualifies and will be recognised as a 'plan asset' under Ind AS 19
The interest cost on defined benefit liability and expected return on plan assets is recognised as employee benefit expenses.	The Company may adopt an accounting policy choice to recognise the net interest cost on net defined benefit liabilities as finance cost.
Actuarial gains/losses is recognised an 'exceptional item' in profit and loss.	Remeasurment of the net defined benefit liability/(asset) will be recognised in 'Other Comprehensive Income'.

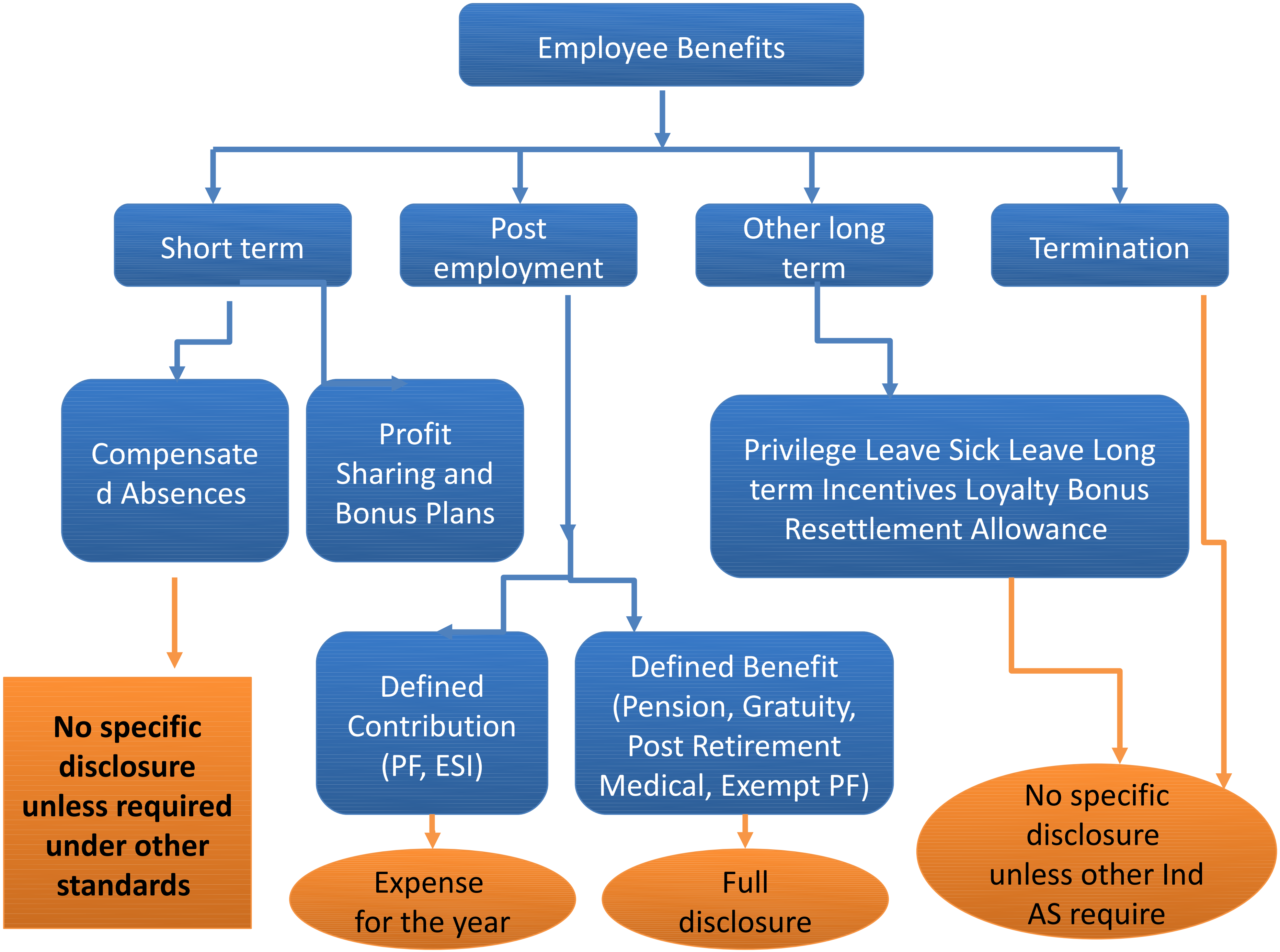
B/S

Reduction in non-current investment by Rs. 350cr due to reclassification of trust as 'plan asset', netted off against the provision for employee benefits.

P/L

Increase in finance cost in due to reclassification of net interest cost of Rs. 3.47cr from employee benefit expense. No impact on profit


Employee Benefits
Short term
Post employment
Other long term
Termination
Compensated Absences
Profit Sharing and Bonus Plans
Privilege Leave Sick Leave Long term Incentives Loyalty Bonus Resettlement Allowance
Defined Contribution (PF, ESI)
Defined Benefit (Pension, Gratuity, Post Retirement Medical, Exempt PF)
Projected unit credit method


Employee Benefits
Short term
Post employment
Other long term
Termination
Compensated Absences
Profit Sharing and Bonus Plans
Privilege Leave Sick Leave Long term Incentives Loyalty Bonus Resettlement Allowance
No specific disclosure unless required under other standards
Defined Contribution (PF, ESI)
Defined Benefit (Pension, Gratuity, Post Retirement Medical, Exempt PF)
No specific disclosure unless other Ind AS require
Expense for the year
Full disclosure


Government
Grants
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Ind AS 20 – Recognition of Government Grants

Whether receipt of grant is a conclusive evidence that the conditions of grants have been fulfilled ?

Ind AS 20 – Government Grant

Forgivable loan from government

Loan at below market rate of interest

Contingent asset or liability

Ind AS 20 – Government Grant

An entity received loan amounting to 15 from the government for setting up a power plant. The government agreed to forgive the loan if the entity created 500 jobs to the nearby residents within a period of 3 years. The entity has estimated that this new project would require a lot of man power and has reasonable assurance that the conditions attached to the forgiveness of the loan will be fulfilled.

Ind AS 20 – Government Grant

An entity receives a loan from the government of 2,000 at 5% rate of interest on 1 January when the prevailing market rate of interest is 10%. The term of the loan is 5 years. It is assumed that the reporting date is 31 December every year.

Present value of future cash flows

Years	Cash Flows	Discount factor	Present Value
1	100	0.909	91
2	100	0.826	83
3	100	0.751	75
4	100	0.683	68
5	2100	0.620	1304
Present value of the loan			1621

Difference between the present value and loan sanctioned is treated as government grant as deferred income

Ind AS 20 – Government Grant

An entity received a grant from the government of 150 to construct a factory building, on a condition that the construction should be complete within the next 2 years, the failure of which would require the entity to repay one-third of the grant amount.

An entity is promised by the government a grant of 300 if it constructs and develops research institutes in 3 different locations. The entity has purchased 3 plots of land and started working for the development of the research institutes. The entity is sure that the objective would be fulfilled and they would receive the grant

Ind AS 20 – Approaches of recording

Systematic basis over the periods

Income approach
Recognised in profit or loss

1. Receipt from source other than share holder
2. Rarely gratuitous

Capital approach
Recognised outside profit or loss

1. Financing device
2. Not earned

Grant received as compensation or for the purpose of giving immediate financial support

Ind AS 20 – Government Grant

The government has agreed to pay 60% of the staff training costs that an entity is supposed to incur for installing advanced machinery. The training costs for the first and second year are 50 and 40 respectively. The grant of 30 (60% of 50) will be recognised in the first year and 24 (60% of 40) will be recognised in the second year in Statement of Profit and Loss.

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Ind AS 20 – Government Grant

An entity receives annual grants for a period of 3 years which is 80% of the costs of R&D activities.

An entity receives a grant for the acquisition of its new office building, which is expected to have a useful life of 40 years.

An entity receives annual grants for a period of 3 years which is 80% of the costs of R&D activities.

An entity purchases a plot of land for 60 on 1 January, 2012 for which it receives a grant of 50. The condition attached to such a receipt is the construction of labour quarters for the employees. The construction will take 2 years to complete. The useful life of the labour quarters is estimated to be 20 years.

Ind AS 20 – Government Grant

An entity, which is in deep financial crisis due to a sharp fall in the demands for its products, receives a grant of 100 for continuing its business. There is no future costs related to this grant.

An entity suffered a loss of 500 after a cyclone hit the place where its factory was located. The government agrees to pay a 80% compensation for this loss.

Ind AS 20 – Presentation

Grants related to fixed assets – Deferred Income

Grants related to income - Other Income

Repayment of Government Grant

Ind AS 20 – Major Disclosures

Accounting policy followed including the method approached

Nature and extent of government grants recongised

Indication of other forms of government assistance benefited

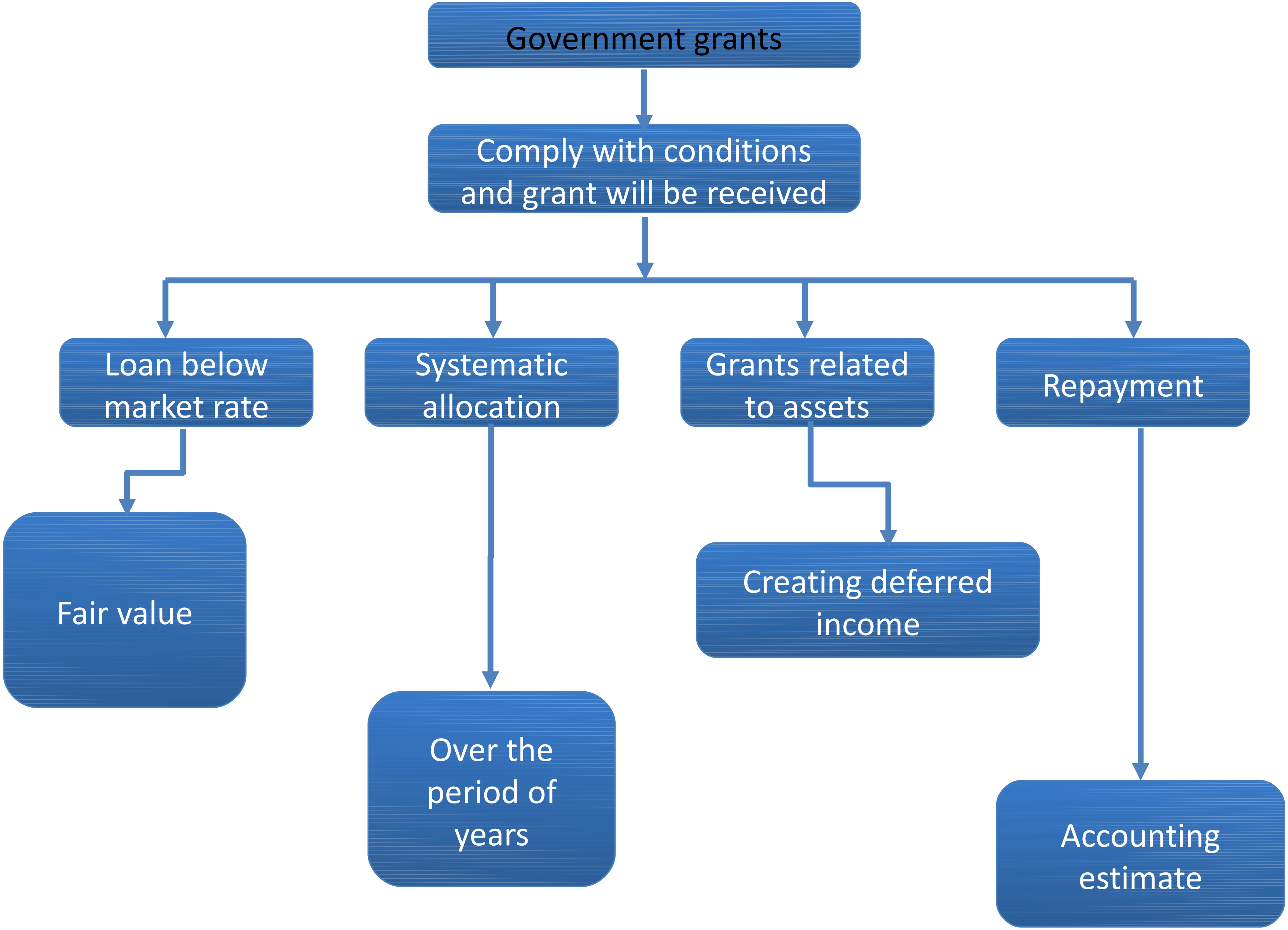
Any unfulfilled conditions including any contingencies

Significant differences between AS and Ind AS

	Government assistance	Non depreciable assets	Obligations for non depreciable assets
AS 12	AS 12 does not deal with government assistance	Amount of grant should be shown as capital reserve	Alternative treatment to deduct from cost
Ind AS 20	Ind AS 20 deals with other forms of government assistance	Prohibits recognition of grants in shareholder funds	Recognise as income over the period which bears the cost of meeting conditions

Significant differences between AS and Ind AS

	Non monetary grant	Grants related to assets	Loan received below market rate of interest
AS 12	Valuation of non monetary asset at cost or nominal value	Presentation by setting up deferred income or by deducting with book value	No such requirement
Ind AS 20	Valuation of non monetary asset at fair value	Presentation only by setting up deferred income and not by deducting with book value	Measured and recorded as per Ind AS 39 (requires to measure at fair value)


Government grants
Comply with conditions and grant will be received
Loan below market rate
Systematic allocation
Grants related to assets
Repayment
Fair value
Over the period of years
Creating deferred income
Accounting estimate

THANK YOU

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