Accounting Standard (AS) 15 (revised 2005) Employee Benefits

By D. S. RAWAT
FCA

In March 2005 the Institute of Chartered Accountants of India has revised Accounting Standard (AS)-15. The scope of revised Accounting Standard (AS)-15 has been substantially enlarged as compared to old Accounting Standard (AS)-15, "Accounting for Retirement Benefits". The new revised Accounting Standard has been tilted as "Employee Benefits" which includes "in service benefits" as well as "retirement benefits".

What it Covers-

It covers the following employee benefits-

- Short-term employees benefits such as wages, salaries, earned leaves.
- Non-monetary benefits- medical care, housing, cars, free or subsidized goods or services to current employee.
- Long-term employee benefits such as long service benefits- jublee benefits, disability benefits, and profit sharing bonus.
- Post employment benefits- Gratuity, pension, post employment life insurance and post employment medical care.
- Termination benefits- Voluntary retirement, termination compensation.
- Benefits provided to employees or their spouses, children, or other dependents or to others, such as trusts, insurance companies.

What it Does not Cover

It does not cover employee share based payments as part of remuneration package – ESOP, ESPP etc. such type of payments to employees are covered by "Guidance note on Accounting for Employee Share Based Payments" issued by the Institute of Chartered Accountants of India.

Meaning of the Employee

Employee includes who provide services to an enterprise on full time, part time, permanent, casual or temporary basis, whole time director and other management personnel.

> The revised AS-15 is more comprehensive as it prescribes the accounting for all payments made to employees whereas; the old AS-15 was covering only retirement benefits to employees.

Accounting for Employee Benefits

Short-term employee benefits **–** When an employee has rendered services to an enterprise during an accounting period the enterprise should recognise all short-term employee benefits such as salary, Over Time etc. paid/payable in exchange of services as an expense.

However if salary and other benefits are capitalised by including the same in cost of an asset as per the provision of other Accounting Standard (e.g. AS-10, Fixed Assets) such employee benefits should not to be treated as an expense.

Non- Monetary Benefits to Employee-Non-monetary benefits like subsidized or free housing, car, and medical are treated as an expense.

Post employment benefits. - Post employment benefit plans may be either defined contribution plans or defined benefit plans.

(a) **Under Defined Contribution Plans**- Employer obligation is limited to the amount that it agree to contribute to the fund like contributory P.F., policy taken from insurance company for gratuity liabilities etc.

Defined contribution paid/payable is treated as an expense. Enterprise should disclose the amount recognised as an expense for defined contribution plans.

(b) **Defined Benefit Plans** - Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense. Accounting for defined benefits plans involves the following steps-

- Using actuarial techniques to make reliable estimate of the amount of benefits that employee have earned in the current and previous period.
- Discounting that benefits
- Where plan has been changed/amended resulting post service cost.

An enterprises should account not only for its legal obligation under the formal terms of a defined benefit plans but also any other obligation that arise from enterprise's informal practices as an expense and liability.

The accounting standard prescribes the detailed guidance regarding the following-

- Actuarial valuation method
- Actuarial assumptions- Discount rate
- Actuarial assumptions- Salaries benefits, medical cost.
- Actuarial gains and losses
- Past service cost
- Recognition and measurement of plan assets
- Curtailments and settlements of defined benefit plans.

It lays down detailed guidelines for actuarial valuation, discount rate, such guidance were not there in old AS-15

Other Long-term Employee Benefits

Other long-term benefits include long-term compensated leave, study leave, jubilee or other long service benefits, profit sharing bonuses, deferred compensation. Other long-term employee benefits should be recognised as an expenses as current service cost and corresponding liability by applying detailed principles as lay down in AS for estimation of the amount of expense and liability.

Termination Benefits - are employee's benefits payable as a result of either-

(a) an enterprise's decision to terminate an employee's employment before the normal retirement date;

Or

(b) an employee's decision to accept voluntary redundancy in exchange for those benefits (voluntary retirement) .

An enterprise should recognise termination benefits as a liability and an expense when it has present obligation as a result of a past event and reliable estimate can be made of the amount of obligation.
When termination benefits fall due more than 12 months after the balance sheet date, they should be discounted using the prescribed discounting rate.

The Controversies about VRS

The controversies regarding accounting for VRS payment has been settled by this Accounting Standard as the same will be accounted in the year when obligation to pay arises and thus no deferment/amortization

However, the AS has provided transitional provision that where an enterprise incur expenditure on termination benefits within three years of this Accounting Standard first coming into effect, the enterprise may choose to follow the accounting policy of deferring such expenditure or its pay back period subject to a maximum of 5 years.

Controversies about accounting for VRS payment has been set to rest by expensing such payments subject to transitional provisions.

The Effective Date

The Institute of Chartered Accountants of India is yet to announce the date from which the accounting standard will be effective. However, the Accounting Standard shall be mandatory whenever made effective.