

ANNOUNCEMENT

Limited Revision to Accounting Standard (AS) 15, *Employee Benefits* (revised 2005)

The Council of the Institute of Chartered Accountants of India has decided to make limited revision to Accounting Standard (AS) 15, *Employee Benefits* (revised 2005), with a view to provide the following:

- (i) Under the Transitional Provisions, an option has been given to charge additional liability arising upon the first application of the Standard as an expense over a period upto 5 years. On the lines of IAS 19, the Transitional Provisions of revised AS 15 require disclosure of un-recognised amount.
- (ii) An entity may disclose the amounts required by paragraph 120(n) as the amount determined for each accounting period prospectively from the transitional date.

The modifications in the Standard are indicated in track-changes mode (the additions are shown as under-lined and deletions are shown in strike-through form) as below:

1. The following paragraph has been inserted after paragraph 92:

“92A. Paragraph 145(b)(iii) explains the need to consider any unrecognised part of the transitional liability in accounting for subsequent actuarial gains.”

2. Paragraph 116 has been modified as follows:

“116. Where a curtailment relates to only some of the employees covered by a plan, or where only part of an obligation is settled, the gain or loss includes a proportionate share of the previously unrecognised past service cost (and of transitional amounts remaining unrecognised under paragraph 145(b)). The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement, unless another basis is more rational in the circumstances.

Example Illustrating Paragraph 116

An enterprise discontinues a business segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the enterprise has a defined benefit obligation with a net present value of Rs. 1,000 and plan assets with a fair value of Rs. 820 and unrecognised past service cost of Rs. 50. The enterprise had first adopted this Statement one year before. This increased the net liability by Rs. 100, which the enterprise chose to recognise over five years (see paragraph 145(b)). The curtailment reduces the net present value of the obligation by Rs. 100 to Rs. 900.

Of the previously unrecognised past service cost and transitional amounts, 10% (Rs. 100/Rs. 1000) relates to the part of the obligation that was eliminated through the curtailment. Therefore, the effect of the curtailment is as follows:

	Before curtailment	Curtailment gain	(Amount in Rs.) After curtailment
Net present value of obligation	1,000	(100)	900
Fair value of plan assets	(820)	-	(820)
	180	(100)	80
Unrecognised past service cost	(50)	5	(45)
<u>Unrecognised transitional amount (100x4/5)</u>	<u>(80)</u>	<u>8</u>	<u>(72)</u>
Net liability recognised in balance sheet			
	<u>130(50)</u>	<u>(95)(87)</u>	<u>-35(37)</u>

An asset of Rs. 37 will be recognised (it is assumed that the amount under paragraph 59(b) is higher than Rs. 37)."

3. The following paragraph has been inserted under the head 'Transitional Provisions':

"142 A. An enterprise may disclose the amounts required by paragraph 120(n) as the amounts are determined for each accounting period prospectively from the date the enterprise first adopts this Statement."

4. Paragraph 145 of AS 15 has been modified as follows:

~~"145. The difference (as adjusted by any related tax expense) between the transitional liability and the liability that would have been recognised at the same date, as per the pre-revised AS 15, should be adjusted immediately, against opening balance of revenue reserves and surplus. If the transitional liability is more than the liability that would have been recognised at the same date as per the pre-revised AS 15, the enterprise should make an irrevocable choice to recognise that increase as part of its defined benefit liability under paragraph 55:~~

- (a) immediately as an adjustment against the opening balance of revenue reserves and surplus (as adjusted by any related tax expense), or
- (b) as an expense on a straight-line basis over up to five years from the date of adoption.

If an enterprise chooses (b), the enterprise should:

- (i) apply the limit described in paragraph 59(b) in measuring any asset recognised in the balance sheet;

- (ii) disclose at each balance sheet date (1) the amount of the increase that remains unrecognised; and (2) the amount recognised in the current period;
- (iii) limit the recognition of subsequent actuarial gains (but not negative past service cost) only to the extent that the net cumulative unrecognised actuarial gains (before recognition of that actuarial gain) exceed the unrecognised part of the transitional liability; and
- (iv) include the related part of the unrecognised transitional liability in determining any subsequent gain or loss on settlement or curtailment.

If the transitional liability is less than the liability that would have been recognised at the same date as per the pre-revised AS 15, the enterprise should recognise that decrease immediately as an adjustment against the opening balance of revenue reserves and surplus.

Example Illustrating Paragraphs 144 and 145

At 31 March 20X6⁷, an enterprise's balance sheet includes a pension liability of Rs. 100, recognised as per the pre-revised AS 15. The enterprise adopts the Statement as of 1 April 20X6⁷, when the present value of the obligation under the Statement is Rs. 1,300 and the fair value of plan assets is Rs. 1,000. On 1 April 20X0¹, the enterprise had improved pensions (cost for non-vested benefits: Rs. 160; and average remaining period at that date until vesting: 10 years).

	<i>(Amount in Rs.)</i>
<i>The transitional effect is as follows:</i>	
<i>Present value of the obligation</i>	<i>1,300</i>
<i>Fair value of plan assets</i>	<i>(1,000)</i>
<i>Less: past service cost to be recognised in later periods (160 x 4/10)</i>	<i>(64)</i>
<i>Transitional liability</i>	<i>236</i>
<i>Liability already recognised</i>	<i>100</i>
<i>Increase in liability</i>	<i>136</i>
	<i>===</i>

This An enterprise may choose to recognise the increase in liability (as adjusted by any related deferred tax expense) should be adjusted either immediately as an adjustment against the opening balance of revenue reserves and surplus as on 1 April 20X6⁷ or as an expense on straight line basis over up to five years from that date. The choice is irrevocable.

At 31 March 20X8, the present value of the obligation under the Statement is Rs. 1,400 and the fair value of plan assets is Rs. 1,050. Net cumulative unrecognised actuarial gains since the date of adopting the Statement are Rs. 120. The enterprise is required, as per paragraph 92, to recognise all actuarial gains and losses immediately.

The effect of the limit in paragraph 145(b)(iii) is as follows:

<u>Net unrecognised actuarial gains</u>	<u>120</u>
<u>Unrecognised part of the transitional liability</u> <u>(136 x 4/5)-</u> <u>(If the enterprise adopts the policy of recognising it over 5 years)</u>	<u>109</u>

<u>Maximum gain to be recognised</u>	<u>11”</u>
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5. The following modification has been made in Appendix C, ‘Comparison with IAS 19, Employee Benefits (as amended in December, 2004)’:

“4. Transitional Provisions

~~In respect of transitional liability for defined benefit plans, IAS 19 provides that if the transitional liability is more than the liability that would have been recognised at the same date under the enterprise’s previous accounting policy, the enterprise should make an irrevocable choice to recognise that increase as part of its defined benefit liability (a) immediately, under IAS 8 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*; or (b) as an expense on a straight-line basis over up to five years from the date of adoption subject to certain conditions. IAS 19 also requires that if the transitional liability is less than the liability that would have been recognised at the same date under the enterprise’s previous accounting policy, the enterprise should recognise that decrease immediately under IAS 8.~~

~~The revised AS 15 (2005), on the other hand, provides no choice in this regard, and requires that the difference between the transitional liability as per this Statement and the liability that would have been recognised as per the pre-revised AS 15, should be adjusted against the opening balance of revenue reserves and surplus. This treatment is in line with the transitional provisions provided in other Indian Accounting Standards.~~

In respect of termination benefits, the revised AS 15 (2005), considering that the industry in India at present is passing through a restructuring phase, specifically contains a transitional provision providing that where an enterprise incurs expenditure on termination benefits on or before 31st March, 2009, the enterprise may choose to follow the accounting policy of deferring such expenditure over its pay-back period. However, the expenditure so deferred cannot be carried forward to accounting periods commencing on or after 1st April, 2010. Thus, the expenditure so deferred should be written off over (a) the pay-back period or (b) the period from the date expenditure on termination benefits is incurred to 1st April, 2010, whichever is shorter. IAS 19 does not provide such a transitional provision.”