

Accounting Standard-15 Employee Benefits

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AS-15 Overview

- Originally issued in 1995
- Last revision in 2005
- Initially Applicable from 3rd Feb 2007.
- Applicability deferred to 1st April 2008.
- Applicable To All Entities – having more than 50 employees.
- Mandatory
- Discuss accounting of employee benefits.

AS PER AS-15 “EMPLOYEE BENEFITS” MEANING

- All Forms Of Consideration
- Given By Employer To Employee
- In Exchange Of **Service**
- **Service** May Have Been Rendered In Past
- Employee Share – Based Payment Like Stock Option Are Not Covered By This Standard

AS PER AS-15 “EMPLOYEE” MEANING

- Employee Includes:-
 - Whole Time Director
 - Management Personnel
 - Full Time/Part Time/Casual/Permanent/Temporary
 - Contract Labor Are Not Employee
- All Forms Of Employer – Employee Relationship
- “Outsourcing Contract” May Not Meet The Definition Of Employer-employee Relationship
- “Contract Of Service” And “Contract For Services”

“CONTRACT FOR SERVICES” and “CONTRACT OF SERVICE”

- Contract for Services
 - It implies for rendering services - professional or technical services
 - Which is subject to limited direction and control
- Contract of Service
 - It implies a relationship of an employer and employee
 - The person is obliged to obey orders
 - Orders
 - for the work to be performed and
 - mode and manner of performance

4 TYPES OF EMPLOYEE BENEFITS

- Short term employee benefits (**STEB**)
- Post employment employee benefit (**PEEB**)
- Long-term employee benefit (**LTEB**)
- Termination benefits (voluntary contribution & payments)

SHORT TERM EMPLOYEE BENEFIT (STEB)

- **MEANING** - Employee Benefits Which Are Expected To Be Paid Or Transferred To Employee Within 12 Months.
- Examples Of STEB
 - ❖ Salary Payable
 - ❖ Bonus Payable
 - ❖ Any Benefit Payable (leave Travel Allowance, paid Annual Leave , Sick Leave)
 - ❖ Short Term Compensated Absences
 - ❖ Profit Sharing And Bonuses
 - ❖ Non-monetary Benefits

Accounting Treatment Of “STEB”

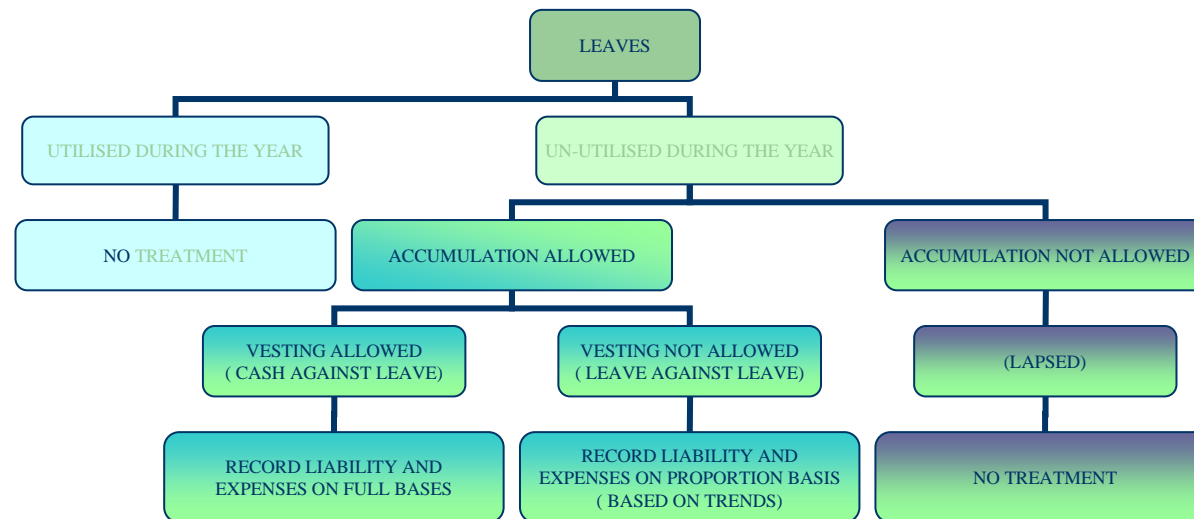
- Accounted on ACCRUAL BASIS
- No Discounting of STEB
- **FOR EXAMPLE:-**
- **FOR BENEFITS PAID IN CASH**

EMPLOYEE BENEFIT A/C DR.
TO CASH
(Being employee benefit paid)

- **FOR BENEFITS PAYABLE**

EMPLOYEE BENEFIT A/C DR.
TO EMPLOYEE BENEFIT PAYABLE
(Being employee benefit payable)

TREATMENT OF LEAVES UNDER “STEB”



Profit Sharing And Bonus Plan Under “STEB”

- A Profit Sharing Plan Requires An Enterprise To Pay A **Specified Proportion Of Its Net Profit For The Year**
- To Employee **Who Serve Throughout The Year**
- Enterprises **Recognizes** A Liability And Expenses (..% Of N.P.)
- Therefore An Enterprises **Recognizes** The **Cost Of Profit Sharing And Bonus Plans**
- **Not As A Distribution Of N.P. But As An Expenses**
- **Notes:- If** Profit Sharing And Bonus Payments Are **Not Due Wholly Within 12 Months** After The End Of The Period In Which Employee Render The Related Services – Then Those Payment Are Not Treated As STEB But It Treated As Long- Term Benefits

(2) Post-employment –Employee Benefits (PEEB)

- Meaning of “PEEB”
- Falls Due Only After The Completion Of Employments
- “PEEB” Includes:-
 - (A) retirement Benefits
(Gratuity And Pension) And
 - (B) other Benefits
(Post-employment Life Insurance And Post-employment Medical Care)

Types Of “PEEB”

- DCP (defined Contribution Plan)
- Under DCP – The Enterprises Obligation Is Limited To Contribute To The Fund And
- There Are No Further Obligation That Arise On The Event Of Any Short Fall In The Fund
- DBP (defined Benefits Plan)
- Under DBP – The Benefits Are Determined By The Length Of Service Or Other Variable Factors
- The Enterprises Should Pay Additional Contributions The Fund As And When Needed
- There Is Element Of Additional Obligation

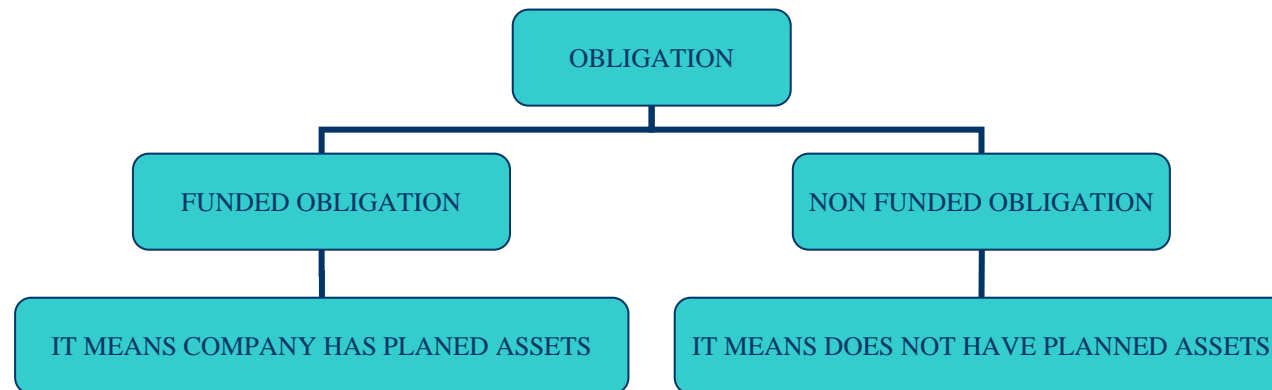
Accounting Treatment Of “DCP”

- In Case Of “ Investment Risk” not Shifted To Employer
- (A) If Obligation To Falls Due Within 12 Months
- Adopt Accrual Basis Of Accounting
- (B) if Obligation To Pay Not Falls Due Within 12 Months
- Adopt Present Value Concept
- Discount Rate Should Be Market Yield On Government Bonds as on Bs Date

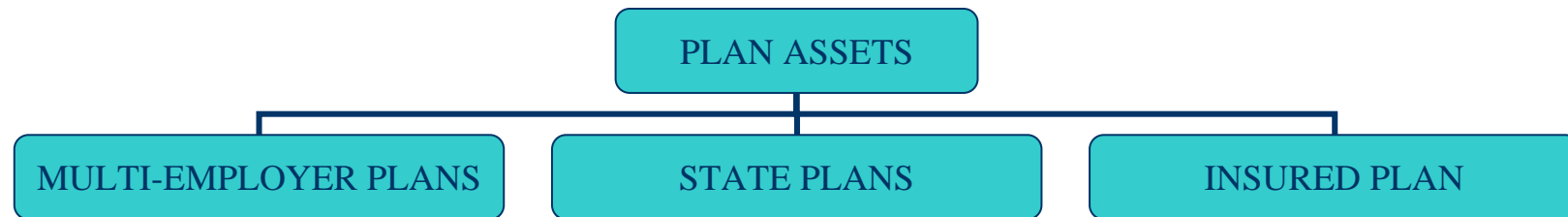
Accounting Treatment Of “DBP”

- In Case Of “ Investment Risk” Shifted To Employer
- Obligation To Pay Arises As Employee Render Services
- Adopt Present Value Concept and recognize future liability

OBLIGATION UNDER PEEB



TYPES OF PLAN ASSETS



(1) Multi Employer Plans (MEP)

- Pool The Assets
- Which Is Contributed By Various Enterprises(Employer)
- That Are Not Under Common Control
- Plan Is Usually Administrated By Board Of Trustee And
- Use Those Assets To Provide Benefits To Employee Of More Than One Enterprises
- On The Basis Of Contribution And Benefit Level
- Contribution Is Invested In Assets/Investments And Is Called **Plan Assets**
- There Is No Segregation Of Assets In A Particular's Employer's Accounts
- **Note(1)** –"MEP" May Be A "DCP" Depending Upon The Term Of Plan Generally "MEP" Are "DCP" Therefore Accounting Is Done Accordingly

Accounting Treatment Of “MEP”

- If “MEP” Is “DCP”
- (A) periodical Contribution Paid By Employer In “MEP” Is Debited In Expenses Account And Credited In Bank Account.
- (B) if The Contribution Is Not Paid And Partly Paid The Amount Is Credited To Payable Account
- If “MEP” Is “DBP”
- Then Apply Present Value Concept And Recognize Future Liability

(2) State Plan

- State Plan Are Established By Legislation
- To Cover All Enterprises
- Or All Enterprises Of A Specific Industry And
- Are Operated By National Or Local Government
- Example:- Example Of Such Plan In India Are **Provident Fund Administrated By The Govt. Of India**

Accounting In Case Of State Plan

- As State Plan Are Normally “DCP”
- (A) The Contribution Paid By Employer Is Debited In Expenses Account And Credited In Bank Account
- (B) if The Contribution Is Not Paid And Partly Paid The Amount Is Credited To Payable Account(
Payable Is Credited To Liability Account)

(3) Insured Benefits Plans

- The Contribution Are Made In The Form Of Insurance Premium And
- The Employee Drive Benefits In An Assured Manner
- Generally It Is “DCP”
- **Note:- If Employer Enterprises Has The Obligation To Pay Employee Benefits When They Falls Due Or To Pay Further Amount If Insurer Does Not Pay, Such Plan Treated As “DBP”**

Accounting Treatment Of Insured Benefits

- As Insured Benefits Plan Are Normally “DCP”
- (A) The Contribution Paid By Employer Is Debited In Expenses Account And Credited In Bank Account
- (B) if The Contribution Is Not Paid And Partly Paid The Amount Is Credited To Payable Account
(Payable Is Credited To Liability Account)
- If Insured Benefit Plan Are “DBP”
- **Accounting Is Done Accordingly**

(3) Other Long Term Employee Benefits (LTEB)

- Meaning Of “LTEB”
- Are Employee Benefits
- Other Than “PEEB” And Termination Benefits)
- Which Do Not Fall Due Wholly Within 12 Months
- After The End Of The Period In Which The Employee Render The Related Service
- “LTEB” Includes:-
- Long Term Compensated Absences
- Jubilee Or Other Long Service Benefits
- Profit Sharing And Bonus Payable 12 Months Or More
- Deferred Compensation Paid 12 Month Or More After The End Of The Period In Which It Is Earned

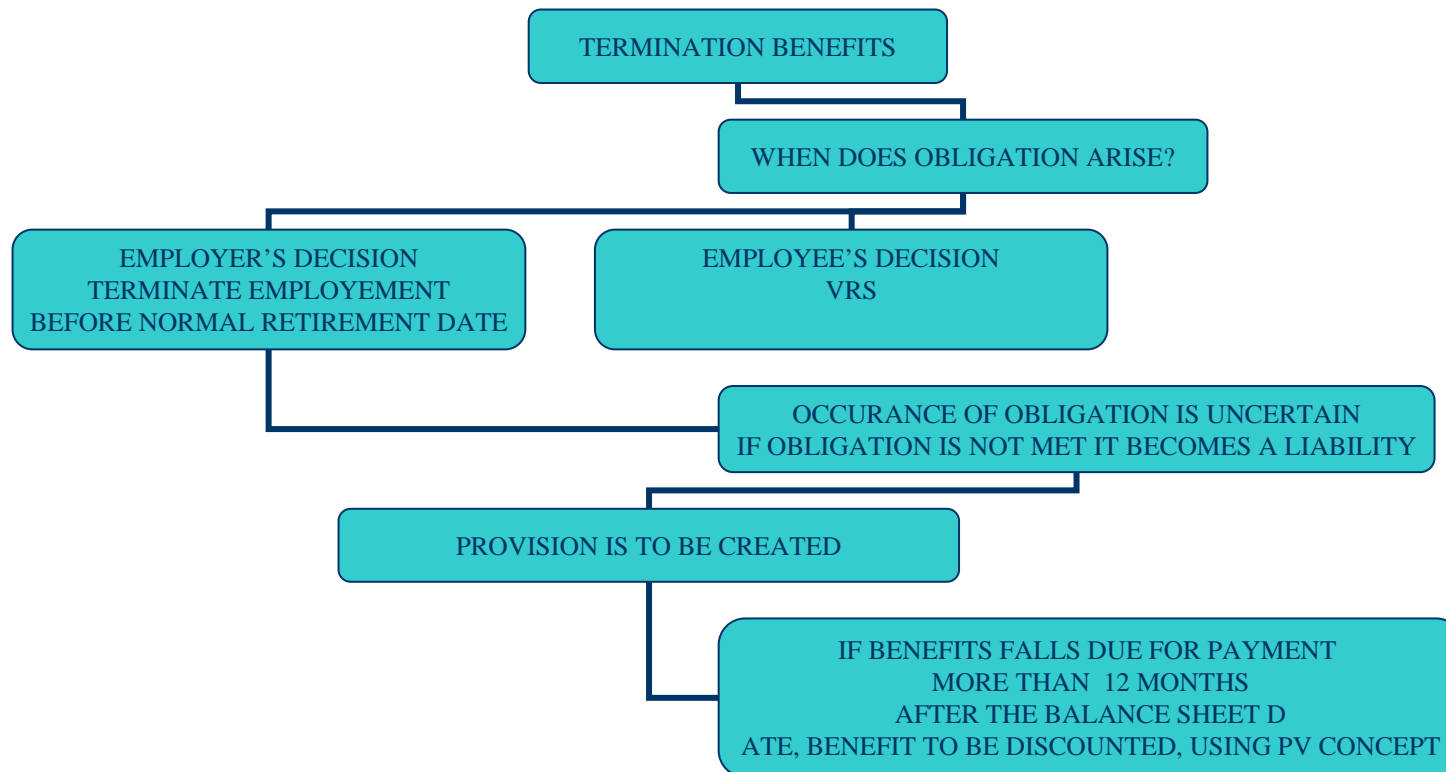
Accounting Treatment Of “LTEB”

- Is Similar To Post Employment Defined Benefits Plans

(4) Termination Benefits

- Falls Due When Employer-employee Relation Ends
- “Before Normal Retirement”
- Voluntary Contribution (payments)

TERMINATION BENEFITS



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