IAS 19 EMPLOYEE BENEFITS

ايم ال علي لتدقيق الحسابات
M Al Ali Auditing
Auditors & Business Advisors
contact@malaliauditing.com
Call us: +97150-3468863

IAS 19 Employee Benefits

Scope & Objective

Objective:

The objective of this standard is to prescribe the accounting and disclosure requirements for employee benefits. It requires an entity to recognise:

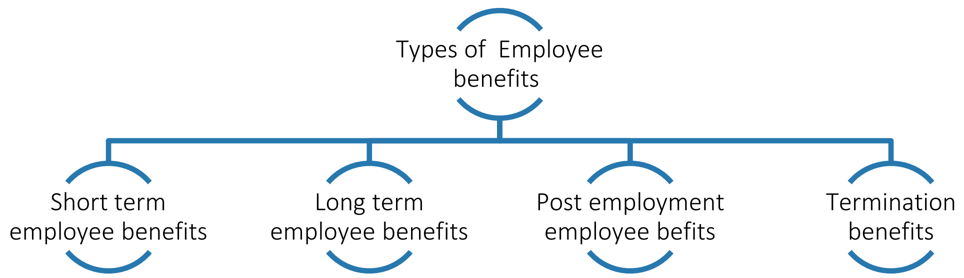
a. A liability for the benefit to be paid in future

b. Expense when entity consumes the economic benefit arising from the service of an employee.

Scope:

This standard is applicable to all economic benefits except Share based payments i.e. IFRS 2

Employee benefits are all sort of considerations given by the entity in exchange for service rendered or for the termination benefits.



Short term employee benefits

Benefits expected to be settled in wholly before twelve months after the end of financial reporting period in which employee has rendered the services e.g : wages , salaries, paid leaves, paid sick leaves, profit sharing, bonus, Non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.
Reclassification of short term to any other not required if entity's expectation of time of settlement change temporarily.

Profit-sharing and bonus payments

The expected cost of profit-sharing and bonus payments is recognised only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected obligation.

Defined Benefit Plans

Particulars	ENTITY	EMPLOYEE
Liability	Pay Contribution	✕
Further Obligation in case of insufficiency of funds	obligation on the entity to provide agreed benefits to current and past employees	✕
Actuarial and investment risk	Entity will bear	✕

An entity is required to recognise the net defined benefit liability or asset in its statement of financial position
Measurement of a net defined benefit asset is the lower of any surplus in the fund and the 'asset ceiling' (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan)

Defined Contribution Plans

Particulars	ENTITY	EMPLOYEE
Liability	Pay Fixed Contribution	✕
Further Obligation in case of insufficiency of funds	No Legal Obligation	✕
Actuarial and investment risk	✕	Employee will bear

Contributions to a defined contribution plan which are not expected to be wholly settled within 12 months after the end of the annual reporting period in which the employee renders the related service are discounted to their present value.

Termination Benefits

A termination benefit liability is recognised at the earlier of the following dates:

- when the entity can no longer withdraw the offer of those benefits
- when the entity recognises costs for a restructuring under IAS 37 which involves the payment of termination benefits.
- measured in accordance with the nature of employee benefit, i.e. as an enhancement of other post-employment benefits, or otherwise as a short-term employee benefit or other long-term employee benefit.

Measurement

It requires application of
- attribution of benefits to periods of service
- actuarial valuation method
- use of actuarial assumptions

- The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the net deficit or surplus
- The present value of an entity's defined benefit obligations and related service costs is determined using the 'projected unit credit method', which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation.
- Benefit is attributed to periods of service using the plan's benefit formula, unless an employee's service in later years will lead to a materially higher of benefit than in earlier years, in which case a straight-line basis is used

Actuarial assumptions used in measurement

- Market expectations
- Mortality assumptions
- Expected future salaries and benefits.
- The discount rate
- Medical cost assumptions
- Plan amendment, curtailment or settlement

Past service costs

Past service cost describes the change in a defined benefit obligation for employee service in prior periods, arising as a result of changes to plan arrangements in the current period.

Gains or losses on the settlement of a defined benefit plan are recognised at the time of settlement.

Before past service costs are determined, or a gain or loss on settlement is recognised, the net defined benefit liability or asset is required to be remeasured, however an entity is not required to distinguish between past service costs resulting from curtailments and gains and losses on settlement where these transactions occur together

Other guidance

IAS 19 provide guidance for
- Recognition of reimbursement of expenditure to settle a defined benefit obligation
- Offset an asset relating to one plan against a liability relating to another plan Accounting for multi-employer plans by individual employers
- Defined benefit plans sharing risks between entities under common control
- Entities participating in state plans
- Insurance premiums paid to fund post-employment benefit plans

Recognition of defined benefit costs

Particulars	Recognition
Service cost attributable to the current and past periods	Profit or loss
Net interest on the net defined benefit liability or asset, determined using the discount rate at the beginning of the period	Profit or loss
Remeasurement of the net defined benefit liability or asset, comprising: ❖ actuarial gains and losses ❖ return on plan assets ❖ some changes in the effect of the asset ceiling	Other Comprehensive income (Not reclassified to profit or loss in a subsequent period)

Disclosures about defined benefit plans

- Explanation of the characteristics of an entity's defined benefit plans, and the associated risks identification and explanation of the amounts arising in the financial statements from defined benefit plans a description of how defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.
- Extensive specific disclosures in relation to meeting each the above objectives are specified,
- Additional disclosures are required in relation to multi-employer plans and defined benefit plans sharing risk between entities under common control

Illustrative Disclosures

A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is 10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year 5, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.
Year 1 2 3 4 5

Year	1	2	3	4	5
Benefit attributed to: – prior years	-	131	262	393	524
current year (1% of final salary)	131	131	131	131	131
current and prior years	131	262	393	524	655
Opening obligation	-	89	196	324	476
Interest at 10%	-	9	20	33	48
Current service cost	89	98	108	119	131
Closing obligation	89	196	324	476	655