EMPLOYEE BENEFITS-IAS 19

These are all forms of consideration given by an entity in exchange for services rendered by employees.

The objective of IAS 19 is to specify the accounting treatment and the associated disclosure requirement when accounting for employee benefits.

Types of employee benefits.

1. **Termination benefits.**

   This becomes payable upon employment/work being terminated either by employee or employer.
2. **Short term employee benefit.**

   This is employee benefit that are to be settled within 12 months after the employee has offered the services e.g. salaries, bonuses, medical cover, housing benefits, car benefits, free gifts.
   They are expensed in the period of service to which they relate.
3. **Long term benefits.**
   They include benefits not settled within 12 months such as sabbatical leaves and long term services benefit. Actuarial gain and loses arising are recognized immediately .All past service cost are recognized immediately.
4. **Post-employment/retirement benefits/pension**
   This is an arrangement by which the entity provides pension to the employee after they retire.an entity should recognize contributions to defined plan scheme as an expense when the employee has rendered the services for which contributions relates.
   Hence it's a benefit payable upon retirement.

There are 2 types of pension plans:

i. Defined contribution plan.
ii. Defined benefit plan.

Defined contribution plan.

The pension payable on retirement usually depends on the contributions paid into the plan by the employee and employer. Under this scheme the employee bears the uncertainties of the amount that will be paid upon retirement. The amount will depend on the performance of the investment.

Defined benefit plans.

The pension payable on retirement under this plan will depend on either the final salary or the average salary of the employee during his career. The calculation is based on actuarial assumptions.eg

$$\frac{2}{3} \times \text{average salary} \times \text{service years}$$

Actuarial assumptions comprise:

1. **Demographic assumptions**-this assumption are about the future characteristic of current and formal employee and their dependent. demographic assumption deals with matters such as:
    - ✓ Mortality both during and after employment.
    - ✓ Rate of employment turnover.
    - ✓ Claim rate under medical plans
2. **Financial assumptions**-this deals with items such as:
    - ✓ Discount rate.
    - ✓ Future salary and benefit level.
    - ✓ Expected rate of return on plan asset.

Within the statement of total comprehensive income for the year, the movement is separated into 3 components as follows.

1. **Service cost component**-this includes current service cost and past service cost together with gains/losses on curtailment and settlement.

   CULTAILMENT-this is a significant reduction in the number of employees covered by the plan.
2. **Interest cost component.**
3. **Re-measurement component**-this includes actuarial gains and losses.

Measuring defined pension asset and liabilities.

Both defined assets and liabilities at the beginning of the reporting period are reconciled with present values at the end of reporting period.

Defined benefit asset.

Fair value of plan asset balance b/d	xxx
Add: contribution to the plan	xxx
Return on asset	xxx
Less benefit paid	(xxx)
Carrying amount	Xxx
Actuarial gains/losses	xxx
Fair value of plan asset balance C/D	xxx

Defined benefit liability.

Present value balance b/d	xxx
Add: current service cost	xxx
Past service cost	xxx
Interest cost	xxx
Less: benefits paid	(xxx)
Carrying amount	Xxx
Actuarial gain/loss	xxx
Present value balance C/D	xxx

Multi-employer plan
Small entities do not have resources to run a pension plan in-house. It pays pension contribution over to an insurance company which it runs a multi-employer i.e. pension plan for several employers.

FUNDED SCHEME

Is a plan which the employer transfers contributions to an external entity which is separate and distinct from the employer.

UN-FUNDED SCHEME.

Is where contribution are not transferred to an external entity rather they are retained in the company and re-invested in the business.
FUNDING –is the process of making cash payment to a pension scheme so as to meet future obligation of paying retirement benefit.

Over-funded and under-funded scheme

Overfunding scheme

This occurs when the fund asset are more than expected to meet benefits payment. Overfunding is corrected by adjusting the current and future contribution and spread the surplus over the remaining service life of the employees covered having made suitable allowances for contribution holiday. The annual charge to the income statement will therefore be computed as follows:

Charge to P&L=regular pension costs – (surplus ÷ remaining service year)

Underfunded scheme

This arises where fund asset are insufficient to meet payment of benefits. Underfunding is corrected by adjusting the current and future cost and spreading the deficient over the expected remaining service life of the employees covered. The annual charge to P&l of the employer is computed as follows:

Charge to p&l=regular pension cost + (deficiency ÷ remaining service life)

Employee Benefits

Illustration one.

Vuanda Industries operates defined post employment plan for its employees. The company's actuaries have provided the following information.

	~~shmillion~~. shmillions
present value of obligation as at 31 Oct 2017	1500
Fair value of plan asset at at 31 Oct 2017	1500
Current service cost for the year	160
past service cost	10
Contributions made during the year	85
Benefits paid to employees during the year	125
present value of obligation as at 31 Oct 2018	1750
Fair value of plan asset as at 31 Oct 2018	1650

Additional information.

1 The expected return on plan asset as of 1 Nov 2017 was 12%.

2 The discount for the plan liability was 10%

Required:

Determine the actuarial changes for both assets and liabilities.

Solution.

Defined plan asset	shmillion
Fair value of plan asset bal b/d	1500
add: Contribution to the plan.	85
: Return on plan asset (12%x1500)	180
less: Benefits paid.	(125)
Carrying amount	1640
Fair value of plan asset bal c/d.	(1650)
Actuarial gain	10

Defined plan liability	shmillion
Present value of plan liability bal b/d.	1500
add: Current service cost	160
past service cost	10
Interest expense 10%x1500	150
less: Benefits paid	(125)
Carrying amount	1695
present value bal c/d	1750
Actuarial loss	(55)

Net actuarial changes 10 − 55 = 45 → To other Comprehensive income

Illustration Two

The following information was extracted from the books of Comfort retirement benefits scheme for the year ended 31 Oct 2016 and 2017.

	2016 Million	2017 Million.
Average remaining service life (year)	10	10
Fair value of plan asset - 1 Nov	96	110
present value of plan obligation - 1 - Nov	100	125
Current service cost	8	10
Contribution to the plan	9	11
Benefits paid	15	12
Past service cost	4	-
Discount rate	10%	8%
Expected rate of return on plan asset	12%	10%.

Additional information:

1 As at 1 Nov 2015, the present value of both plan asset and liabilities were 100 million each.

Required:

The actural gain or losses.

Solution.

Defined plan asset

	2016	2017
Fair value of plan asset bal b/d	100	96
Contribution to the plan.	9	11
Return on plan asset 12%x100 10%x96	12	9.6
less: Benefits paid.	(15)	(12)
Carrying amount	106	104.6
Fair value of plan asset bal c/d	96	110
Actural changes	(10)	5.4

Defined plan liabilities

	2016	2017
Present value of obligation bal b/d.	100	100
current service cost	8	10
past service cost	4	-
Interest expense (10%x100) (8%x100)	10	8
less: Benefits paid	(15)	(12)
Carrying amount	107	106
Present value bal c/d	100	125
Actural changes:	7	(19)

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Accounting and Reporting by Retirement Benefits (IAS 26)

The pension entities usually prepares the following statement.

1) Statement of changes in net asset (fund account)
2) statement of net asset

1) Statement of changes in net asset format

Incomes	
Contributions by: Employee	xx
Employer	xx
Transfer from other schemes	xx
Investment incomes	xx
Expenses	
pension and other benefits	(xx)
Adm expenses	(xx)
Transfer to other schemes	(xx)
other expenses	(xx)
Surplus/ deficit	xx(xx)

11) Statement of net asset format

Assets	
Non-current Assets	
PPE	xx
Investments	xx
current Assets	
Contributions receivables	xx
Cash and bank balances	xx
Contribution due in days	xx
current liabilities	
pension payables	(xx)
Accruals	(xx)
Net asset	xx
Financed by	
Fund balance/ Accumulated fund	xx
Surplus	xx
	xx

June 2011 Q 3c

The following trial balance was extracted from the books of Jukuu Retirement benefits scheme as at 31 March 2011:

	Sh million	Sh million
Accumulated fund as at 1 April 2010		23 078
Accrued expenses		12
Administrative expenses	142	
Demand deposits	1173	
Reduction in market value of investment	1132	
Commutation & lumpsum retirement benefits	241	

Contributions due within 30 days	247	
Employers normal contribution		1504
Employers additional contribution		320
Individual transfers from other schemes		157.5
Individual transfer to other schemes	93	
Investment income		2370
Investment property	6616	
Fixed income investment	13180	
Members normal contributions		912
Members voluntary contribution		228
Pension paid	382	
Equity investment : Quoted	4392	
: Unquoted	999.5	
Unpaid benefits		16
	28597.5	28597.5

Required

1) Statement of changes in net asset for the year ended 31 March 2011

2) Statement of net asset as at 31 March 2011

solution.

Juhudi Retirement scheme
Statement of changes in net Asset
For the year ended 31 March 2011

Income	Sh million
Employers normal contribution	1504
Employers additional contribution	320
Individual transfer from other scheme	157.5
Investment income	2370
Members normal contribution	912
Members voluntary contribution	228
Expenses	
Adm expenses	(142)
Reduction in mkt value of inv't	(1132)
Commutation & lumpsum retirement	(241)
Individual transfer to other scheme	(93)
Pension paid	(382)
Surplus	3501.5

Juhudi Retirement schemes
Statement of net asset
As at 31 March 2011

Assets	Sh million.
Non-current Assets	
Investment property	6616
Fixed income investment	13180
Equity investment - Quoted	4392
unquoted	999.5
Current Assets	
Demand deposits	1173
Contribution due within 30 days	247
Current liabilities	
Accrued expenses	(12)
Unpaid benefits	(16)
Net Assets	26579.5
Financed by	
Accumulated fund	23078
Surplus	3501.5
	26579.5