IAS 19 Employee Benefits

SCOPE

This Standard shall be applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment* applies. The employee benefits to which this Standard applies include those provided (i) under formal plans or other formal agreements between an entity and individual employees, groups of employees or their representatives, (ii) under legislative requirements, and (iii) by those informal practices that give rise to a constructive obligation.

SHORT-TERM EMPLOYEE BENEFITS

Employee benefits expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services (wages, salaries, paid leave, profit-sharing, bonuses and non-monetary benefits).

When an employee has rendered service to an entity during an accounting period → recognize the undiscounted amount expected to be paid in exchange for that service as:

- An expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset (e.g. IAS 2 *Inventories* or IAS 16 *Property, Plant, and Equipment*).
- As a liability (accrued expense) after deducting any amount already paid.
  - If amount paid exceeds the amount of benefits recognize as an asset (prepaid).

Short Term Paid Absences

Accumulating

- Unused paid absences are carried forward and used in future periods.
- Recognize the expected cost when the employees render the service that increases their entitlement to future paid absences.
- Measured as additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

Non-accumulating

- Unused paid absences lapse if not used.
- Employees are not entitled to a cash payout on leaving.
- Recognize the cost when the absences occur.

Profit Sharing & Bonuses

Recognize expected cost when:

- The entity has a present legal or constructive obligation to make such payments as a result of past events, and
- A reliable estimate of the obligation can be made.

A present obligation exists when the entity has no realistic alternative but to make payments.

OTHER LONG-TERM EMPLOYEE BENEFITS

Other long-term employee benefits include items such as the following, if not expected to be wholly settled before 12 months after the end of the annual reporting period in which the employees render the related service:

- Long-term paid absences such as sabbatical leave.
- Long-term disability benefits.
- Profit-sharing and bonuses, and
- Deferred remuneration.

Surplus or deficit and any reimbursement right - recognize and measure the same as for defined benefit plan.

Net total of service cost, net interest on the net defined benefit liability or asset and remeasurements - recognize in profit or loss unless other IFRS requires/permits inclusion in the cost of an asset. Amounts are calculated as for a defined benefit plan.

Long-term disability**:** if level of benefit depends on length of service - obligation/cost arises as service is rendered. If benefit is the same for any employee regardless of service → cost recognized upon disabling event.

POST-EMPLOYMENT BENEFITS

Employee benefits such as (i) retirement benefits (e.g. pensions and lump sum payments on retirement), and (ii) other post-employment benefits, such as post-employment life insurance and medical care.

Defined Benefit Plans

Employer's obligation → to provide agreed benefit to current/former employees.

- Actuarial and investment risk resides with employer.
- Practice of increasing benefits to adjust for inflation→ constructive obligation created despite no legal obligation.

Recognize in P&L

a. Current service cost.
b. Past service cost.
c. Any gain/loss on settlement.
d. Net interest on the defined benefit liability (asset).

Recognize in OCI → remeasurements

a. Actuarial gains and losses.
b. Return on plan assets (excluding amounts included in net interest on the net defined benefit liability / asset).
c. Any change in effect of *asset ceiling* (excluding amounts in net interest on net defined benefit liability / asset).

Net defined benefit liability or asset → deficit or surplus adjusted for effect of limiting an asset to the *asset ceiling*.

Deficit or surplus → present value of defined benefit obligation less the fair value of plan assets (if any).

Asset ceiling → present value of economic benefits available as refunds from plan or reductions in future contributions to plan.

Defined Contribution Plans

Employer's legal or constructive obligation is limited to amount it agrees to contribute.

- The amount of benefits received by employee is determined by amount of contributions paid by an entity (and perhaps also the employee) together with investment returns.

Recognition and Measurement

When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable in exchange for that service:

a. As a liability after deducting any contribution already paid → if the contribution already paid exceeds the contribution due for service an entity shall recognize that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.
b. As an expense, unless another IFRS requires / permits its inclusion in the cost of an asset.
c. when contributions not expected to settle before 12 months, they shall be discounted.

TERMINATION BENEFITS

Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

- Typically, lump-sum payments but also include enhancement to post-employment benefits or salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

Recognize liability and expense at the earlier of (i) when the entity can no longer withdraw the offer of those benefits and (ii) when the entity recognizes costs for a restructuring that is within scope of IAS 37 and involves the payment of the termination benefits.

Initial measurement and subsequent changes shall be in accordance with nature of the employee benefit

- If enhancement to post-employment benefits – apply the requirements for post-employment benefits.
- If expected to be settled < 12 months after year-end – account for as short-term employee benefits.
- If expected to be settled > = 12 months after year-end – account for as other long-term employee benefits.