IAS19 Employee Benefits (Final Revision checklist)

Amendments issued June 2011, effective 1 January 2013

Apply and discuss the accounting treatment of (i) **short term** and (ii) **long term** employee benefits (syllabus reference 6a)

1. Under IAS 19 (2011) a benefit is classified as short term if it is expected to be settled within a year of the period end (or reporting date). Those which are not are classified as **other long-term employee benefits.**

APPLY THE ACCOUNTING TREATMENT

2. The following table gives a brief outline of the critical differences in accounting for **short-term** and **long-term employee benefits**.

	Short term employee benefits	**Long term employee benefits**
When to pay	Within twelve months of the end of the reporting period in which they are earned (the "**earning period**")	Not due to be settled within twelve months of the end of the period in which the employee rendered the benefit obligating services. Two types: - Other long term employee benefits - Post employment benefits
Accumulating or non-accumulating	- Accumulating if the benefits can be carried forward from one reporting period to the next - Non-accumulating if the benefits cannot be carried forward.	- Accumulating
Vesting or non-vesting	- Vesting if the employee receives cash in lieu of leave, etc when they leave - Non vesting if employee does not receive cash in lieu (e.g. paternity absence, sick leave, maternity leave, etc) when they leave	- Vesting (e.g. qualifying period of pensionable service)
Examples	- Wages, salaries and social security contributions - Benefits in kind e.g. leased cars, private medical insurance, staff loans at off-market rates, discounted supplies e.g. canteen meals, - Short-term **compensated absences** (e.g. sick leave, leave pay) where the absence is expected to occur within 12 months of the end of the period in which the related services of the employee were rendered - **Profit-sharing and bonuses** payable within 12 months of the end of the period in which the employee rendered the related services - **Non-monetary benefits** e.g. medical care, housing or cars	Other long term employee benefits - long-term compensated absences - jubilee or other long-service benefits - **profit-sharing and bonuses** payable twelve months or more after the end of the period in which the employee rendered the related service Post employment benefits - **deferred compensation** paid twelve months or more after the end of the period in which it was earned

IAS19 Employee Benefits (Final Revision checklist)

Amendments issued June 2011, effective 1 January 2013

		- **Defined contribution plans** - Defined benefits plans
Basis of charge or liability	When **benefit obligating services** are rendered (employee works to accrue leave pay) or when **benefit obligating event** occurs (employee is absent due to sickness). If employees lose the benefit when they leave that does not preclude recognition of a provision for the benefit although it may affect the measurement of it as uncertainty has to be taken into account.	When **benefit obligating services** are rendered (employee works to accrue leave pay) or when **benefit obligating event** occurs (employee is absent due to sickness)
Recognition of charge	The **cost of the benefit is recognised in profit or loss** as an expense unless another international standard allows inclusion of expense as part of cost of asset e.g. IAS 2, IAS 16, IAS 11	**Other long –term employee benefits** Current year's **profit or loss** charge (unless another standard allows inclusion in cost of asset) consisting of: - current service cost - net interest - actuarial gains and losses - past service cost - the effects of curtailments **Post** employment **benefits:** - Actuarial gains and losses are recognised in other comprehensive income - **Settlements**: recognised in other comprehensive income as part of re-measurement (IAS 19 2011)
Presentation of charge	**Operating expense**	Long-term liability or asset unless payable (or recoverable) within twelve months in which case the portion payable (or recoverable) within twelve months should be included in current liabilities (or current assets).
Measurement of net assets or liabilities	**Undiscounted amount** recognised as - a liability after deducting any payments already made; where the amounts already paid exceed the undiscounted amount of the liability an asset is only recognised if it represents future	**Other long –term employee benefits** The SOFP liability will be the PV of the future benefit obligation less the fair value of the assets from which the obligation will be settled.

	economic benefits in terms of reductions in future payments or cash refunds	**Post** employment **benefits**

DISCUSS THE ACCOUNTING TREATMENT

Guidance on discussing an accounting topic

What are we required to discuss? The discussion is about issues critical to identification, recognition, measurement and presentation of **short-term** and **long-term benefits**. The discussion ***examines*** (identifies and considers the implications of) issues that are critical to ***identification, recognition, measurement and presentation*** and decides, based on accounting principles and user requirements, what should be done about these issues, including indicating appropriate disclosures.

What is critical in relation to **short-term benefits**? Benefits accrue over time for services rendered. In accordance with the matching principle they are recognised over the period for which services were rendered. There are usually conditions attached. These conditions are necessarily time-based. For example, the condition for an employee to become entitled to receive benefits may be that they work throughout the vesting period. In relation to pensions this vesting period is known as the ***pensionable service years***. Therefore, the two critical issues when discussing the accounting treatment of benefits has to centre on a) time and b) conditions and how these two interact in determining recognition and measurement of pension benefits and obligations. These two separately, or together, may cause **measurement problems the implications of which must be considered and evaluated**. How does accounting reflect that problem in terms of solutions? Study how this is done below.

Compensated absences

An Example of a discussion applying the above principles

Compensated absences may be **accumulating** (employee can carry forward unused absences from one accounting period to the next) or **non-accumulating** (employee benefits are **not carried forward**: unused benefits of an accounting period are lost). Given these circumstances what are the measurement and recognition issues raised? The issues are how much should be recognised and when should it be recognised? Do the benefits vest (are their preconditions to be satisfied before employees become entitled to benefits)? If so how does that affect recognition and measurement?

The **expected cost** of *compensated absences* that do not accumulate should be measured in accordance with the terms of the contract and recognised when the absence occurs. There is no material vesting period or condition.

Benefits relating to Compensated Absences that *accumulate* do so because of the additional services that are rendered, measured by the period of service. E.g. *leave pay* carried forward increases with the period of service eligible to be carried forward. Therefore, **accumulating compensated costs** are recognised when the employees render services that increase their entitlement to related future benefits.

What about **vesting**? For **short term benefits** (as defined above) the *vesting period* is what gives rise to the recognition of the **compensated absence** and the terms are that the employee will receive cash in lieu of leave should he leave without taking his full leave entitlement. Therefore the benefit is not subject to additional vesting period beyond the period already worked.

What about **the likelihood of employees leaving**? How does accounting reflect that? The measurement of the amount to recognise reflects the likelihood of employees leaving. At the reporting date the entity makes a best estimate of the likelihood of employees leaving. The calculation of the amount to recognise reflects this. However, if employees stay and fail to use their full leave entitlement they may lose it but this event is not anticipated in the estimates as this would lead to under provision which is imprudent.

CASE STUDY (applying the above skill – this case study is based on a recent exam question that is included in the workbook at question …)
The permanent employees of Enil are entitled to 30 days paid leave each year and the leave accrues evenly each year and unused leave may be carried forward for one year. The holiday year is concurrent with the financial year. At 31 March 2010 Enil has 1500 employees. The average unused holiday is 5 days per employee. At the reporting date it was estimated that 5% of employees would leave without taking their entitlement. Employees that leave will be paid cash in lieu of leave. There are 225 working days in the year. The total annual salary cost is $45 million.

Required
Discuss how the above transaction should be accounted for in the financial statements of Enil at 31 March 2010.

Analysis
- At the reporting date all 1500 employees are present and are entitled to compensated absence for unused leave that is allowed to accumulate. The leave is a short term employee benefit as defined by IAS 19 (2011).
- The total expected cost of the benefit should be accrued in the financial statements for the year ended 31 March 2010. The expectation that 5% of employees may leave without using their full leave entitlement is immaterial to the amount recognised as an accrual because i) if employees leave after the reporting date it will not be an adjusting event because this event will not affect the conditions at the reporting date; ii) because employees get paid leave pay anyway the amount of the accrual is unaffected by whether the employees stay until they use their leave entitlement or leave before using their full entitlement.
- Consequently, the total amount of $1m should be accrued: recognising a current liability and a charge to profit or loss for the same amount in accordance with IAS 19 (2011). Do the calculations methodically as demonstrated below:

Accrual for leave pay

	$	
Annual salary costs	45,000,000	
Number of days unused leave 5 x 1,500	7,500	Compensated absence
Number of days in a year 1,500 x 225	337,500	
Pay per day $45m/1,500 x 225	133	
Pay for 7,500 days	1,000,000	Cost of compensated absence

Exam Insight!

- This topic is likely to be examined as part of the computations supporting the preparation of group accounts in part A (Question 1). Please explain the principles as set out in the worked examples above. The examiner is looking for them.
- The topic was **examined in June 2010** as expected, in Part A. The examiner warns without making any specific comment about the performance on this topic: **"In a question such as this, it is very easy to make a mistake in calculation. Thus it is always important to show workings in a clear and concise manner so that marks can be allocated for the principles and method used by the candidate."** Examiner's report June 2010.
- You should expect the topic of employee benefits to be examined frequently because staff related costs are common and material to every organisation.
- Please refer to Workbook for further practice

Profit sharing and bonus plans

3. The expected cost of a profit sharing or bonus plan should only be recognised when:

- the enterprise has a present legal or constructive obligation to make such payments as a result of past events
- a reliable estimate of the obligation can be made

4. A **present obligation** exists when and only when the entity has no realistic alternative but to make payments. Examples of a constructive obligation

- if the entity's bonus plan is subject to a *loyalty period* during which the employee provides services that qualifies for a bonus
- if by established past practice the entity has set up a valid expectation on the part of its eligible employees that it will pay a bonus then there is no realistic alternative but to pay it.

5. The **measurement** of the amount recognised should always take into account

- the possibility of employees leaving the scheme and the due date for payment
- the due date (if it is more than twelve months after the end of the period in which the employee rendered the service then the measurement should reflect this. The projected unit method should be used to measure the long term benefit)

6. The obligation is accounted for as an **expense** (not a share of profit) because it is not a transaction between owners but compensation for rendering of services.

Annually determined bonuses with a loyalty period of more than one year.

7. The amount of bonus to be received by the employee is determined in advance of payment for services rendered in the **earning period**. Having been conditionally allocated the amount of the bonus based on the services rendered during the earning period the employee only becomes entitled to claim the bonus after serving out a further agreed period, the **loyalty period,** with the entity. The **vesting period** thus consists of the earning period and the loyalty period.

8. If the **loyalty period** ends within a year of the end of the **earning period** then the bonus expense is accrued entirely in the **earning period** that preceded the loyalty period. No part of the charge is spread forward to the loyalty period. *This is in stark contrast to IFRS 2 which requires the cost of the employee benefit (share options) to be allocated to the entire vesting period on a straight line basis. Why such a stark contrast? How does IAS 19 justify it?* Easy! In accordance with IAS 37 a present obligation is recognised at the end of the earning period based on current estimates of bonus expenses. As the loyalty period ends within twelve months of the end of the earning period the present obligation is a current liability and the corresponding charge is made entirely to profit or loss for the period.

9. If on the other hand the loyalty period ends twelve months after the end of the earning period the bonus is treated as an **other long term employee benefit**. IAS 19 requires the benefit to be attributed to years of service from

- the date when service by the employee first accrues benefit under the plan
- the date when further service by the employee ceases to accrue benefits except for the effects of increases in salary.

10. The following case study illustrates the methodology

Case Study: Long-term cumulative bonus scheme

Anil commenced a long-term bonus scheme for employees on 1 October 2011. Under the scheme employees receive a cumulative bonus on the completion of five years service. The bonus is 5% of the total of the annual salary of the employees. The total salary of employees for the year to 30 September 2012 was $45 million and a discount rate of 10% is assumed. At 30 September 2012 it is assumed that all employees will receive the bonus and that salaries will rise by 7% per year throughout the five year period.

Required
Discuss how the above transaction should be accounted for in the financial statements of Anil at the reporting date.

Analysis:

- Because the bonus vests more than twelve months after the end of the first period (year ending 30/09/2012) that accrues a benefit, IAS 19 (2011) classifies this bonus as **other long term employee benefit**. This means that (the cost of) the benefit has to be attributed to the vesting period on a straight line basis from the date when the service by the employee first accrues benefit under the plan until the date service ceases to accrue benefit, except for the effects of salary increases.
- A **service cost** and **interest cost** are recognised in profit or loss in the same way as for pension benefits

Anil Cumulative long term cumulative bonus scheme

Year ending	30/09/12	30/09/13	30/09/14	30/09/15	30/09/16
	$m	$m	$m	$m	$m
Salary	45.00	48.15	51.52	55.13	58.99
Bonus - current	2.25	2.41	2.58	2.76	2.95
Bonus - prior	0.00	2.25	4.66	7.23	9.99
Cumulative	2.25	4.66	7.23	9.99	12.94
Years remaining at year end	4	3	2	1	0
Discount factor (10%)	0.683	0.751	0.826	0.909	1.000

Bonus rates	5%
Salary increases	7%
Rate of interest	10%

	30/09/12	30/09/13	30/09/14	30/09/15	30/09/16
Opening obligation	0.00	1.77	3.89	6.41	9.41
Interest at 10%	0.00	0.18	0.39	0.64	0.94
Current service cost	1.77	1.94	2.14	2.35	2.59
Closing obligation	1.77	3.89	6.41	9.41	12.94

Explanation of the calculation of the charge and liability

Cumulative bonus at the end of the five year vesting period is $12.94m	Total obligation Current service cost	12.94
Annual allocation in accordance with IAS19 (2011) is $12.94/5 equals		2.59
The present value of this figure at the reporting date 30 September 2012 has to be determined using the discount rate of 10% for 4 years (not five because it is being determined at the end, not the beginning, of the first year)		$1.77

As it is a long term bonus scheme $1.77m a liability will be recognised in Long term liability and the charge will be recognised in profit or loss for the year ended 30 September 2012.

Exam Insight!

- This topic is likely to be examined as part of the computations supporting the preparation of group accounts in part A (Question 1). Please explain the principles succinctly as set out in the worked examples above.
- The topic was examined in June 2011 as expected in **Part A q1.4**. **4 marks** were allocated for a simple calculation. The examiner was not

happy as the following extract shows: "**The cumulative bonus payable on the long term bonus scheme was often incorrectly calculated with the main problem being the present value calculation" ACCA Examiner's report, June 2011.**

Practise and Pass

Please refer to Workbook for further practice. Exercises have been designed to allow comprehensive practice. There is particular focus on the unique issues raised by the long-term bonus scheme that vests within twelve months of the end of the **earning period**. As indicated above the accounting treatment is in contrast to IFRS 2 (how?). The examiner may want to examine that soon! Given the examiner's well honed approach (introduce contrasting scenarios in the same question to stretch and challenge candidates) questions have been designed to require discussion of the accounting treatment of both scenarios envisaged under **long term bonus plans**: a) vesting within twelve months of the end of the earning period (**short term employee benefits)**; b) vesting after twelve months of the end of the earning period (**other long term employee benefits**). See Questions…

Termination benefits

11. Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal employment date or
- an employee's decision to accept voluntary redundancy in exchange for those benefits

They are accounted for differently (**how differently?**) from other employee benefits because the obligation that gives rise to them is the termination of the employment (therefore recognise when the decision to terminate employment is irrevocably made by management) rather than the rendering of services (benefits arising are accrued and entitlement increases with the period of service).

	Termination benefits	**Other employee benefits paid on leaving employment**
Nature of benefits	Benefits paid as a result of the termination of employment. IAS 19 (2011) distinguishes these benefits from benefits paid on leaving. Additionally identified by: - not linked to length of future service in other words there is no loyalty period - the benefits are offered for a clearly defined period and they expire at the end of that period - there is no legal or constructive obligation on the part of the employer to extend the closing date	Benefits paid as a result of employee rendering services. They include benefits paid on leaving. The entity is obliged to pay these regardless of the reason for the employee leaving.

IAS19 Employee Benefits (Final Revision checklist)

Amendments issued June 2011, effective 1 January 2013

Recognition of **liability** and **expense**	When and only when there is **demonstrable commitment** (detailed formal plan without realistic prospect of withdrawal) to either - terminate the employment of an employee (or group of employees) before the normal retirement date - provide termination benefits as a result of an offer made to encourage *voluntary redundancy* **Demonstrable commitment** is indicated by detailed plans from which the entity is fully committed and is unlikely to withdraw due to its *constructive obligation* to execute. The features of such a plan are - timescale for implantation urgent and quick to minimise the risk of material alterations to the plan - amount of termination benefits are specified - location and persons affected are specified	When **benefit obligating services** are rendered (employee works to accrue leave pay) or when **benefit obligating event** occurs (employee is absent due to sickness)
Form of benefits	- Lump-sum payments - Enhancement of retirement and other post employment benefits - Enhancement of salary prior to retirement provided no further services are received during the period when the employee is receiving enhanced salary. So if enhanced rates are paid to induce employees to stay and complete a corporate restructure the enhance pay is not a termination benefit.	- Lump-sum e.g. leave pay or sick pay or bonus - Post retirement lump-sum or instalment
Measurement	**Discounted** if due to be paid more than twelve months after the reporting date in which they were incurred. The *discount rate* is the same as the rate used in *retirement benefits*.	Discounted if due to be paid more than twelve months after the reporting date in which they were incurred.

Exam Insight!

- This topic is likely to be examined as part of the computations supporting the preparation of group accounts in part A (Question 1). Please explain the principles succinctly as set out above. It could also be examined as part B question (advice or discussion).
- It has not been examined recently. Given the climate of redundancies (and major restructures) the examiner may well consider inserting a 5 mark calculation in part A.
- **What are the critical issues he might examine**? i) what is crucial for a provision for redundancy to be recognised? ii) when is it not appropriate for a provision for redundancy to be recognised? iii) explain the differences between **termination payments** and other post employment benefits (part B type question); iv) (measurement issues are always key) how would you deal with long-term redundancy

payments? v) the links with IFRS 5 particularly where the redundancy follows a major restructure resulting in disposal of a segment of the business, vi) the links with IAS 37 particularly where there is a *restructure*: criteria for recognising a provision; discounting future cash flows under IAS 19 uses **yield on good quality corporate bond (such as Tesco plc)** whereas IAS 37 uses **market rates adjusted for risks unique to the liability**. The examiner may give you two rates.

Practise and Pass

See questions

Long term disability benefits

Where the level of benefit depends in the length of service of the employee

12. Where long-term benefit depends on the length of service of the employee an obligation accrues while the employee is rendering services that have an economic benefit to the entity. The level of benefit is measured according to the probability that payment will be required and the length of time for which payment will be made.

Where the level of benefit is the same for all employees

13. If the level of benefit is the same for all employees regardless of the length of service then the liability and expense are recognised when an event causing disability occurs.

Discussion of Accounting issues

14. The debit entry is an instant charge to the profit or loss. This is consistent with the practice of recognising other employee benefit obligations. Recognising the debit as an asset would be incompatible with the definition of an asset in the Framework.

15.

16.Critical changes introduced by *IAS19 Employee benefits issued June 2011 effective 1 January 2013.*

“These amendments will make it easier for users of financial statements to understand how defined benefit plans affect an entity's **financial position**, **financial performance** and **cash flows**”. *IASB Work plan*.

IAS19 Employee Benefits (Final Revision checklist)

Amendments issued June 2011, effective 1 January 2013

Corridor approach

Eliminate the *corridor method*. **Effect:** recognise unrecognised actuarial gains and losses immediately in Other Comprehensive Income.

Benefits:

- simplifies accounting as removes an unwarranted accounting option;
- understandable and relevant information will be produced on-balance sheet instead of the off-balance sheet which was the effect of the corridor approach of deferring recognition of actuarial gains and losses;
- consistent with criteria for recognition of assets and liabilities within the Framework;
- represents move towards convergence between IASB and FASB.
- recognition of actuarial gains and losses in *other comprehensive income* isolates the profit or loss from volatilities arising from changes in plan assets and liabilities.

Finance cost

Calculate and present a single net interest figure on defined benefits asset or liability using the discount rate used in calculating the defined benefit liability. **Effect**: **discontinue recognition of expected return on long-term plan assets in profit or loss**.

Benefits:

- using the same (discount) rate to measure net liability (assets) in the balance sheet and to measure income for comprehensive income is consistent, relevant and comparable.

Unvested past service cost

Recognise in full as attribution of unvested benefits to past service results in a liability that should be recognised in full immediately (in accordance with IAS37). This removes the deferral allowed under IAS 19.

Benefits:

- Produces more relevant and reliable information as the effects of all material changes occurring in a period are fully reflected in the current financial statements.

Asset ceiling

- As a direct result of the ED proposals to recognise actuarial gains and losses immediately, the asset ceiling calculation will be simplified, relating only to refunds from the plan or reductions in contributions to the plan. In other words, recognition of plan surpluses is restricted to amounts that are determined as measurable economic benefits in the form of refunds from the plan and reductions in contributions to the plan.
- Unlike IAS19 requirements the proposals do not require recognition of plan assets and liabilities on the part of an acquirer in a business combination.

Asset valuation basis

Liability valuation basis

17. Are you clear about the key definitions? - Present value of defined benefit obligation - Interest cost - Past service cost - Current service cost - Experience adjustments (actuarial gains and losses) - Projected unit credit method (accrued benefits method; benefits/years of service method) - Constructive obligation	See Workbook exercises

6 b) Apply and discuss the accounting treatment of (i) **defined contribution** and (ii) **defined benefit** plans. [3]

18. Are you clear about the difference between defined contribution plans and defined benefit plans? Are you clear about the key principles that underpin accounting for defined benefit plans?

Defined contribution

- The entity's obligation is limited to legal terms under the contract. There is no constructive obligation to make good any shortfalls in pension fund assets. Therefore, if the scheme funds that are managed entirely separately by another entity are not enough to meet obligations for future employee benefits there is no obligation on the part of the entity to make good any deficits. This would be the case under a defined benefits plan. In other words the distribution of pension funds is limited to what is available.

Defined benefit obligation

- The entity undertakes to pay an agreed benefit to employees at the end of their employment in accordance with the terms of the plan. Unlike the defined contribution plan the employees and employers contributions are not limiting factors in terms of what can paid to employees under the scheme. This imposes a constructive obligation on the entity to make up any shortfalls in pension fund assets.
- There are two types of defined benefit pension plans: **funded** and **unfunded**.

Funded

- Under the funded scheme the assets of the pension fund are held separately from those of the entity (or group) and managed by an independent administrator. The entity protects the pension of the employees.
- The PV of the obligation and fair value of the asset are re-measured frequently to ensure they are not materially different from the amounts that would be determined at the end of the reporting period.

IAS19 Employee Benefits (Final Revision checklist)

Amendments issued June 2011, effective 1 January 2013

- Any **deficit** or excess of the fair value of the assets over the PV of the defined benefit obligations is recognised in the entity's statement of financial position.
- Assets are recognised <u>only</u> to the extent the circumstances meet the criteria in the definition of an asset (*a resource controlled by the entity as a result of a past transaction and from which future economic benefits are expected to flow to the entity*). In this context that means two things: i) **refunds** have been confirmed to the entity; ii) **deductions** from future obligations (reducing liabilities) have been confirmed.
- Otherwise assets should not be recognised but can be disclosed in the notes to the accounts.

Unfunded

- The related liabilities and assets are carried in the statement of financial position of the entity or group.

Projected unit credit method

- Each year of service gives rise to an additional unit of benefit entitlement that is measured separately, and accumulates to the final obligation.

19.

20.

21.

22.

23. What is <u>not</u> included in plan assets?

The following are <u>not</u> included in plan assets

- **Unpaid contributions** due from the employer
- Non **transferable financial instruments** issued by the entity and held by the fund
- **Nonqualifying insurance policies**

24. Net plan asset: <u>recoverability test</u>. What to <u>recognize</u> and what to <u>disclose</u>.

i) Calculate the value of net liability or asset (X).

ii) If X < 0, Asset (limit amount to recognize based on recoverability test) ; if X>0, liability (recognise in full)

iii) Recoverability test : a) Calculate the net actuarial gains and losses plus (or minus) benefits in terms of reduction and refund that reduce future entity contributions to plan assets Y; b) If Y is less than X then take Y as the value of the assets. Show X-Y as reduction in carrying value due to the limit

Statement of Financial Position

Illustrating recoverability test

Defined benefit plan	Balances $m	(i), (ii) Net value (X)	(iii) Limit
Present value of obligation	35	35	0
Fair value of plan assets	39	(39)	0
Actuarial losses	5	(5)	5
Past service cost	2	(2)	2
Benefits: Present value of available future refunds and reductions in contributions:	1		1

	(11) 8 As X <0, net value is an asset. Recoverability test limits recognition in SOFP to 8. Notes to the accounts: carrying value reduced by 3 due to limit.
25.Comprehensive income statement.	
26. Offset of pension assets and liabilities. What are the conditions under which offset of pension assets and liabilities is allowed?	
6 c) Account for **gains and losses** on **settlements** and **curtailments**.[2]	
27. **Curtailments** (*limit service periods eligible for benefits; limit number of employees eligible for benefits e.g. stop new employees joining the plan*)	

IAS19 Employee Benefits (Final Revision checklist) **Amendments issued June 2011, effective 1 January 2013**	
28. Settlements (*pay and remove employee from plan*).	
29. **Evaluative comments** on IAS 19:	
6 d) Account for the (i) **"Asset Ceiling" test** and the (ii) **reporting of actuarial gains and losses**.[2]	
30. An asset may be recognised where an **actuarial gain** has arisen or a **defined benefit plan** has been over-funded. How does the standard justify the recognition of an asset?	The standard justifies the recognition of an asset because: i) the entity controls a resource- the ability to use the surplus to generate future benefits; ii) that control is a result of past events: contributions paid by the entity and service rendered by the employee; and iii) future economic benefits are available to the entity in the form of a reduction in future contributions, or a cash refund, either directly to the entity or indirectly to another plan in deficit.
31. What is the **ceiling test** and why is it required?	The amount recognised is restricted <u>so as not to exceed</u> <u>the net total of</u> i) any unrecognised actuarial losses and past service cost; and ii) the PV of any economic benefit available in the form of refunds from the plan or reductions in future contributions to the plan (determined by using the same discount rate as used for the financial liabilities of the plan)
32. Clarity and quality of discussion Revise the glossary from … and test your knowledge <u>rigorously</u> using i) objective tests; ii) fill in the blanks; iii) match the concept	
Key terms - preconditions to entitlement to benefits -	
Key words	

IAS19 Employee Benefits (Final Revision checklist)

Amendments issued June 2011, effective 1 January 2013

- Actuarial costs (*past service cost, current service cost, interest, expected return on plan assets*)
- Actuarial gains and losses
- Constructive obligations (*past practice; working during loyalty period; no realistic alternative but to make payments*)
- Earning period
- Loyalty period
- Past service cost
- Post employment benefits
- Preconditions
- Present obligation
- Projected unit credit method
- Termination benefits
- Vest: when the employee is required to satisfy preconditions before entitlement to benefits; benefits accrue and can be claimed for the eligible period of service.
- Vested benefits (*conditions fulfilled: e.g. in 6th year of service after fulfilling five years of vesting period*)
- Unvested benefits (*benefit conditions yet to be fulfilled e.g. in 3rd year of service to fulfil vesting period of five years*).
- Vesting period: the period until all conditions are satisfied
- Voluntary redundancy payments
-

Key phrases: it is worth memorizing these as **prepared phrases** could potentially save you time in the exams and make your answers read more professional.

-

33. News digest & Developments