International Accounting Standard 19

Employee Benefits

ICPAK SEMINAR

2nd Feb 2012

The Objective of IAS 19

- The objective of this Standard is to prescribe:
  (a) the accounting; and
  (b) disclosure for employee benefits.

- The Standard requires an entity to recognise:

(a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

(b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

The Scope of IAS 19

- Applied by an employer in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies.
- An employee may provide services to an entity on a full time, part time, permanent, casual or temporary basis. For the purpose of this Standard, **employees include directors** and other management personnel (Para 6).
- The issuance of shares or rights to shares requires an increase in a component of equity. IFRS 2 requires the offsetting debit entry to be expensed when the payment for goods or services does not represent an asset.
- Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Employee benefits include:

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation; and

(d) termination benefits: payable because of a decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

Recognition and measurement: All short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within twelve months after the end of the period in which the employees render the related service.

10. When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

(a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IAS 2 Inventories and IAS 16 Property, Plant and Equipment).

International Accounting Standard 24
Related Party Disclosures

- 16 An entity shall disclose key management personnel compensation in total and for each of the following categories:

  (a) short-term employee benefits;

  (b) post-employment benefits; benefits payable after the completion of employment;

  (c) other long-term benefits;

  (d) termination benefits; and

  (e) share-based payment.

- ***Key management personnel*** are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

- **(NB. N**on-executive directors are key management personnel).

CHAPTER 486: The Companies Act

- 197. (1) In any accounts of a company laid before it in general meeting, or in a statement annexed, there shall be shown
(a) the aggregate amount of the directors' emoluments;
(b) the aggregate amount of directors' or past directors' pensions; and
(c) the aggregate amount of any compensation to directors or past directors in respect of loss of office.

- (2) The amount to be shown under paragraph (a) of sub-section (1)-
(a) shall include any emoluments paid to or receivable by any person in respect of his services as director of the company or in respect of his services, while director of the company, as director of any subsidiary thereof or otherwise in connection with the management of the affairs of the company or any subsidiary thereof; and

  (b) shall distinguish between emoluments in respect of services as director, and other emoluments: "emoluments" includes fees and percentages, any sums paid by way of expenses allowance in so far as those sums are charged to income tax, any contribution paid in respect of him under any pension scheme and the estimated money value of any other benefits received by him otherwise than in cash.

Post-employment benefits: defined contribution plans: (1) Recognition and measurement

- 44 When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the repayment will lead to, for example, a reduction in future payments or a cash refund; and

- (b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*).

Defined contribution plans: (2) Recognition and measurement & Disclosure

- 45 Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 78.

- **Disclosure**
- 46 An entity shall disclose the amount recognised as an expense for defined contribution plans.
- 47 Where required by IAS 24 an entity discloses information about contributions to defined contribution plans for key management personnel.

EABL: Accounting Policy Note: y.e. 30-06-09 (1)

Employee benefits

(i) ***Retirement benefit obligations***

The group operates defined contribution retirement benefit schemes for some of its employees. The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the group and employees. The group and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The group's contributions to the defined contribution schemes are charged to the income statement in the year to which they relate. The company has no further obligation once the contributions have been paid.

(ii) ***Other entitlements***

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

EABL: Accounting Policy Note: y.e. 30-06-09 (2)

(iv) ***Termination benefits***

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

KPLC: 2009: Accounting policy note (1)

(h) Leave accrual

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the balance sheet date.

International Accounting Standard 1
Presentation of Financial Statements

77 An entity shall disclose, either in the statement of financial position or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity’s operations.

78 The detail provided in sub-classifications depends on the requirements of IFRSs and on the size, nature and function of the amounts involved:

d) Provisions are disaggregated into provisions for employee benefits and other items.

104 An entity classifying expenses by function (as opposed to nature) shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.

EABL: Income Statement Notes: y.e. 30-06-09 (1)

		2009	2008
9.	**Staff costs**	**Kshs'000**	**Kshs'000**
	The following items are included within staff costs:		
	Salaries and wages	2,416,325	2,619,967
	Defined contribution scheme	57,210	20,015
	Defined benefit scheme	-	399
	National Social Security Funds	69,291	32,054
	Other staff costs	419,901	428,672
		2,962,727	**3,101,107**

EABL: Income Statement Notes: y.e. 30-06-09 (2)

(d) Directors' remuneration

	2009	2008
	Kshs'000	**Kshs'000**
(i) ***Group***		
Fees for services as a director	3,840	13,170
Other emoluments included in key management compensation in (e) below	220,519	198,548
	224,359	**211,718**

EABL: Income Statement Notes: y.e. 30-06-09 (3)

(e) Key management compensation

	2009	2008
	Kshs'000	**Kshs'000**
Salaries and other short-term employment benefits	404,013	340,222
Termination benefits	-	-
Post-employment benefits	13,719	11,046
Other long-term benefits	3,644	329
	421,376	**351,597**

KPLC: 2009: Accounting policy note (2)

ii) Other receivables

Other receivables include recoverable VAT and fuel costs, employee debtors, inter-company balances, recoverable work and tenants. Recoverable VAT is mainly amount refundable by tax authority in relation to overpaid taxes while recoverable fuel costs relate to fuel cost to be passed to electricity customers. The details of provision for impairment for other receivables at 30 June 2009 is as per note 18(d).

Accumulating compensated absences

- Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full

- An entity shall measure the expected cost of accumulating compensated absences as the 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.

Example: Accumulating compensated absences

- K Ltd. has 100 employees. Each is entitled to 5 working days of paid sick leave for each year. Unused sick leave may be carried forward for one calendar year. Sick leave is taken first out of the current year's entitlement and then out of any balance brought forward from the previous year (a LIFO basis). At 30 Dec 2009, the average unused entitlement is 2 days per employee. K Ltd. expects, based on past experience which is expected to continue, that 92 employees will take no more than 5 days of paid sick leave in 2010 and that the remaining 8 employees will take an average of six and a half days each.
- K Ltd. expects that it will pay an additional 12 days of sick pay as a result of the unused entitlement that has accumulated at 31 Dec 2009 (one and a half days each, for 8 employees). Therefore, the entity recognises a liability equal to 12 days of sick pay.

KPLC: 2009: Accounting policy note (3)

27. PROVISION FOR LEAVE PAY

	2009	2008
	KShs'000	KShs'000
At 1 July	610,750	481,683
Additional provisions	42,279	129,067
At 30 June	653,029	610,750

Provision for annual leave is based on services rendered by employees up to the end of the year.

Expected cost of profit-sharing and bonus payments

- A profit-sharing plan requires K Ltd. to pay a specified proportion of its profit for the year to employees who serve throughout the year. If no employees leave during the year, the total profit-sharing payments for the year will be 3% of profit. The entity estimates that staff turnover will reduce the payments to 2.5% of profit.

- The entity recognises a liability and an expense of 2.5% of profit.

Multi-employer plans (1)

- 29 An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms). Where a multi-employer plan is a defined benefit plan, an entity shall:
- (a) account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and
- (b) disclose the information required by paragraph 120A.

Multi-employer plans (2)

- 30 When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, an entity shall:
- (a) account for the plan under paragraphs 44–46 as if it were a defined contribution plan;
- (b) disclose:
- (i) the fact that the plan is a defined benefit plan; and
- (ii) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan; and
- (c) to the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
- (i) any available information about that surplus or deficit;
- (ii) the basis used to determine that surplus or deficit; and
- (iii) the implications, if any, for the entity.

State plans - NSSF

- **36 An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 29 and 30).**
- 37 State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national or local government or by another body (for example, an autonomous agency created specifically for this purpose) which is not subject to control or influence by the reporting entity. Some plans established by an entity provide both compulsory benefits which substitute for benefits that would otherwise be covered under a state plan and additional voluntary benefits. Such plans are not state plans.

Insured benefits

- 39 An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation to either:
- (a) pay the employee benefits directly when they fall due; or
- (b) pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.
- If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

Definitions (1)

Vested employee benefits are employee benefits that are not conditional on future employment.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Definitions (2)

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
The return on plan assets is interest, dividends and other revenue derived from The plan assets, together with realised and unrealised gains or losses on the Plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

Actuarial gains and losses comprise:
(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
(b) the effects of changes in actuarial assumptions.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Defined benefit plans: Recognition and measurement

- 52 An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

Defined benefit plans: Recognition and measurement: Statement of financial position (1)

- 54 The amount recognised as a defined benefit liability shall be the net total of the following amounts:
- (a) the present value of the defined benefit obligation at the end of the reporting period (The present value of the defined benefit obligation is the gross obligation, before deducting the fair value of any plan assets);
- (b) plus any actuarial gains (less any actuarial losses) not recognised because of the treatment set out in paragraphs 92 and 93;
- (c) minus any past service cost not yet recognised (see paragraph 96);
- (d) minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 102–104).

- 56 An entity shall determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.

Defined benefit plans: Recognition and measurement: Statement of financial position (2)

- 58 The amount determined under paragraph 54 may be negative (an asset). An entity shall measure the resulting asset at the lower of:
- (a) the amount determined under paragraph 54; and
- (b) the total of:
- (i) any cumulative unrecognised net actuarial losses and past service cost (see paragraphs 92, 93 and 96); and
- (ii) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate specified in paragraph 78.

- 58A The application of paragraph 58 shall not result in a gain being recognised solely as a result of an actuarial loss or past service cost in the current period or in a loss being recognised solely as a result of an actuarial gain in the current period.

Defined benefit plans:
Recognition and measurement:
Statement of financial position (3)

- The entity shall therefore recognise immediately under paragraph 54 the following, to the extent that they arise while the defined benefit asset is determined in accordance with paragraph 58(b):
- (a) net actuarial losses of the current period and past service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified in paragraph 58(b)(ii). If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period shall be recognised immediately under paragraph 54.
- (b) net actuarial gains of the current period after the deduction of past service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified in paragraph 58(b)(ii).

  If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period shall be recognised immediately under paragraph 54.

Defined benefit plans: Recognition and measurement: Profit or loss

- 61 An entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- (a) current service cost (see paragraphs 63–91);
- (b) interest cost (see paragraph 82);
- (c) the expected return on any plan assets (see paragraphs 105–107) and on any reimbursement rights (see paragraph 104A);
- (d) actuarial gains and losses, as required in accordance with the entity's accounting policy (see paragraphs 92–93D);
- (e) past service cost (see paragraph 96);
- (f) the effect of any curtailments or settlements (see paragraphs 109 and 110); and
- (g) the effect of the limit in paragraph 58(b), unless it is recognised outside profit or loss in accordance with paragraph 93C.

Recognition and measurement: present value of defined benefit obligations and current service cost

- 63 The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, medical cost trends and, for a funded plan, the investment earnings on the plan assets. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary to:
- (a) apply an actuarial valuation method (see paragraphs 64–66);
- (b) attribute benefit to periods of service (see paragraphs 67–71); and
- (c) make actuarial assumptions (see paragraphs 72–91).
- 64 An entity shall use the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.
- 65 The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Example illustrating paragraph 65

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 year.

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
Benefit attributed to: prior years	0	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

Note:

1. The opening obligation is the present value of benefit attributed to prior years.
2. The current service cost is the present value of benefit attributed to the current year.
3. The closing obligation is the present value of benefit attributed to current & prior years.

Attributing benefit to periods of service

- 67 In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- (a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- (b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.
- 68 The Projected Unit Credit Method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

Examples illustrating paragraph 68

- 1. A defined benefit plan provides a lump-sum benefit of 100 payable on retirement for each year of service.
- *A benefit of 100 is attributed to each year. The current service cost is the present value of 100. The present value of the defined benefit obligation is the present value of 100, multiplied by the number of years of service up to the end of the reporting period. If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.*

2. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

- *Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted because pension payments begin at the age of 65.*

Actuarial assumptions (1)

- **72 Actuarial assumptions shall be unbiased and mutually compatible.**
- 73 Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:
- (a) demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:
  (i) mortality, both during and after employment;
  (ii) rates of employee turnover, disability and early retirement;
  (iii) the proportion of plan members with dependants who will be eligible for benefits; and
  (iv) claim rates under medical plans; and
  (b) financial assumptions, dealing with items such as:
  (i) the discount rate;
  (ii) future salary and benefit levels;
  (iii) in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments; and
  (iv) the expected rate of return on plan assets.

Actuarial assumptions (2)

- 77 Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.
- 78 The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

Actuarial assumptions: salaries, benefits and medical costs

- 83 Post-employment benefit obligations shall be measured on a basis that reflects:
- (a) estimated future salary increases;
- (b) the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period; and
- (c) estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- (i) those changes were enacted before the end of the reporting period; or
- (ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.
- 88 Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Actuarial gains and losses (1)

- 92 In measuring its defined benefit liability in accordance with paragraph 54, an entity shall, subject to paragraph 58A, recognise a portion (as specified in paragraph 93) of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:
- (a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- (b) 10% of the fair value of any plan assets at that date.

  These limits shall be calculated and applied separately for each defined benefit plan.
- 93 The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined in accordance with paragraph 92, divided by the expected average remaining working lives of the employees participating in that plan. However, an entity may adopt any systematic method that results in faster recognition of actuarial gains and losses, provided that the same basis is applied to both gains and losses and the basis is applied consistently from period to period. An entity may apply such systematic methods to actuarial gains and losses even if they are within the limits specified in paragraph 92.

Actuarial gains and losses (2)

- **93A If, as permitted by paragraph 93, an entity adopts a policy of recognising actuarial gains and losses in the period in which they occur, it may recognise them in other comprehensive income, in accordance with paragraphs 93B–93D, providing it does so for:**
- **(a) all of its defined benefit plans; and**
- **(b) all of its actuarial gains and losses.**

- 93B Actuarial gains and losses recognised in other comprehensive income as permitted by paragraph 93A shall be presented in the statement of comprehensive income.

- 93C An entity that recognises actuarial gains and losses in accordance with paragraph 93A shall also recognise any adjustments arising from the limit in paragraph 58(b) in other comprehensive income.

- 93D Actuarial gains and losses and adjustments arising from the limit in paragraph 58(b) that have been recognised in other comprehensive income shall be recognised immediately in retained earnings. They shall not be reclassified to profit or loss in a subsequent period.

Past service cost

- **96 In measuring its defined benefit liability under paragraph 54, an entity shall, subject to paragraph 58A, recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, an entity shall recognise past service cost immediately.**

- 97 Past service cost arises when an entity introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

Reimbursements

- **104A When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall recognise its right to reimbursement as a separate asset. The entity shall measure the asset at fair value. In all other respects, an entity shall treat that asset in the same way as plan assets. In the statement of comprehensive income, the expense relating to a defined benefit plan may be presented net of the amount recognised for a reimbursement.**
- 104B Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 7, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets and paragraph 104A does not apply.

Curtailments and settlements

- 109 An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall comprise:
- (a) any resulting change in the present value of the defined benefit obligation;
- (b) any resulting change in the fair value of the plan assets;
- (c) any related actuarial gains and losses and past service cost that, under paragraphs 92 and 96, had not previously been recognised.
- 110 Before determining the effect of a curtailment or settlement, an entity shall remeasure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Presentation: Offset

- **116 An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**
- **(a) has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**
- **(b) intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.**
- 117 The offsetting criteria are similar to those established for financial instruments in IAS 32 *Financial Instruments: Presentation*.

Disclosure (1)

- 120 An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.
- 120A An entity shall disclose the following information about defined benefit plans:
- (a) the entity's accounting policy for recognising actuarial gains and losses.
- (b) a general description of the type of plan.
- (c) a reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
- (i) current service cost,
- (ii) interest cost,
- (iii) contributions by plan participants,
- (iv) actuarial gains and losses,
- (v) foreign currency exchange rate changes on plans measured in a
- currency different from the entity's presentation currency,
- (vi) benefits paid,
- (vii) past service cost,
- (viii) business combinations,
- (ix) curtailments and
- (x) settlements.
- (d) an analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.

Disclosure (2)

(e) a reconciliation of the opening and closing balances of the fair value of plan assets and of the opening and closing balances of any reimbursement right recognised as an asset in accordance with paragraph 104A showing separately, if applicable, the effects during the period attributable to each

of the following: (i) expected return on plan assets,

(ii) actuarial gains and losses,

(iii) foreign currency exchange rate changes on plans measured in a currency different from the entity's presentation currency,

(iv) contributions by the employer,

(v) contributions by plan participants,

(vi) benefits paid,

(vii) business combinations and

(viii) settlements.

- f) a reconciliation of the present value of the defined benefit obligation in (c) and the fair value of the plan assets in (e) to the assets and liabilities recognised in the statement of financial position, showing at least:
- (i) the net actuarial gains or losses not recognised in the statement of financial position;
- (ii) the past service cost not recognised in the statement of financial position;
- iii) any amount not recognised as an asset, because of the limit in paragraph 58(b);
- (iv) the fair value at the end of the reporting period of any reimbursement right recognised as an asset in accordance with paragraph 104A (with a brief description of the link between the reimbursement right and the related obligation); and
- (v) the other amounts recognised in the statement of financial position.

Disclosure (3)

- (g) the total expense recognised in profit or loss for each of the following, and
- the line item(s) in which they are included:
- (i) current service cost;
- (ii) interest cost;
- (iii) expected return on plan assets;
- (iv) expected return on any reimbursement right recognised as an asset in
- accordance with paragraph 104A;
- (v) actuarial gains and losses;
- (vi) past service cost;
- (vii) the effect of any curtailment or settlement; and
- (viii) the effect of the limit in paragraph 58(b).
- (h) the total amount recognised in other comprehensive income for each of the
- following:
- (i) actuarial gains and losses; and
- (ii) the effect of the limit in paragraph 58(b).
- (i) for entities that recognise actuarial gains and losses in other
- comprehensive income in accordance with paragraph 93A, the cumulative
- amount of actuarial gains and losses recognised in other comprehensive
- income.

Disclosure (4)

- j) for each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.
- (k) the amounts included in the fair value of plan assets for:
- (i) each category of the entity's own financial instruments; and
- (ii) any property occupied by, or other assets used by, the entity.
- (l) a narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.
- (m) the actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 104A.
- (n) the principal actuarial assumptions used as at the end of the reporting period, including, when applicable:
- (i) the discount rates;
- (ii) the expected rates of return on any plan assets for the periods presented in the financial statements;
- (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 104A;
- (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases);
- (v) medical cost trend rates; and (vi) any other material actuarial assumptions used.

  An entity shall disclose each actuarial assumption in absolute terms (for example, as an absolute percentage) and not just as a margin between different percentages or other variables.

Disclosure (5)

- (o) the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on:
- (i) the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs; and
- (ii) the accumulated post-employment benefit obligation for medical costs.

  For the purposes of this disclosure, all other assumptions shall be held constant. For plans operating in a high inflation environment, the disclosure shall be the effect of a percentage increase or decrease in the assumed medical cost trend rate of a significance similar to one percentage point in a low inflation environment.

- (p) the amounts for the current annual period and previous four annual periods of:
- (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
- (ii) the experience adjustments arising on:
- (A) the plan liabilities expressed either as (1) an amount or (2) a percentage of the plan liabilities at the end of the reporting period and
- (B) the plan assets expressed either as (1) an amount or (2) a percentage of the plan assets at the end of the reporting period.
- (q) the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting period.