



1

# THE FINANCIAL REPORTING WORKSHOP

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THE WHITE RHINO HOTEL,  
NYERI

**EMPLOYEE BENEFITS**

- **Employee benefits** are all forms of **consideration** given by an entity **in exchange for service rendered** by employees, including directors and management.
- Includes all employee benefits, except for **share-based payment transactions**, which are covered by Section 26 *Share-based Payment*
- The objective of section 28 *Employee Benefits* is to specify the accounting and disclosure requirements for employee benefits
- While accounting for wages, salaries and other short-term benefits is relatively straightforward, post-employment benefits can be more troublesome

Section 26 addresses:-

1. Short-term employee benefits
2. Post-employment benefits (defined contribution and defined benefit)
3. Other long-term employee benefits
4. Termination benefits

# Short term benefits

4

- When an employee has rendered service to an entity during the reporting period, the entity shall measure the amounts recognized is the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service. Hence:-
  - a. The undiscounted amount of benefit earned by an employee in return for service provided is recognised as expense.
  - b. An asset or liability in the statement of financial position arises if there is a prepayment or accrual.

- For accumulating paid absence (e.g. holiday entitlements), recognise an expense when employee renders service that increases the entitlement to absence.
- For non-accumulating paid absence (e.g. sick day), recognise the expense when the absence occurs.

# Recognition for profit-sharing and Bonus plans

6

An entity shall recognize the **expected cost of profit-sharing and bonus payments** only when:

- the entity has a present legal or constructive obligation to make such payments as a result of past events (this means that the entity has no realistic alternative but to make the payments); and
- a **reliable estimate** of the obligation **can be made**

Post-employment benefit plans are classified as either **defined contribution plans** or **defined benefit plans**, depending on their **principal terms and conditions**

## In defined contribution plan

- a. Contributions are paid into a separate fund
- b. Entity has no further legal or constructive obligation to the fund
- c. The risk of fund deficit lies with the employee



defined benefit plan Is a post-employment **benefit plan other than** a defined contribution plan

# Defined contribution plan

10

An entity shall recognize the contribution payable for a period:

- (a) as a liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, an entity shall recognize that excess as an asset.
- (b) as an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment

# Defined benefit plan

11

An entity shall measure a defined benefit liability for its obligations under defined benefit plans at the net total of the following amounts:

- (a) the **present value** of its obligations under defined benefit plans (its **defined benefit obligation**) at the reporting date (paragraphs 28.16–28.22 provide guidance for measuring this obligation).
- (b) minus the **fair value** at the reporting date of plan assets (if any) out of which the obligations are to be settled directly. Paragraphs 11.27–11.32 provide guidance for determining the fair values of those plan assets.

# Defined benefit plan

12

- An entity shall measure its **defined benefit obligation on a discounted present value** basis.
- The entity shall **determine the rate** used to discount the future payments by **reference to market yields** at the reporting date on high quality corporate bonds.
- In countries with no deep market in such bonds, the entity shall use the market yields (at the reporting date) on government bonds.
- The **currency and term of the corporate bonds** or government bonds shall be **consistent with the currency and estimated period of the future payments**

# Defined benefit plan

13

- If an entity is able, without undue cost or effort, to use the **projected unit credit method** to measure its defined benefit obligation and the related expense, it shall do so.
- If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis that reflects estimated future salary increases.
- the projected unit credit method requires an entity to make various **actuarial assumptions** in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

# Defined benefit plan

14

If an entity is not able, without undue cost or effort, the entity is permitted to make the following simplifications in measuring its defined benefit obligation with respect to current employees:

- (a) ignore estimated future salary increases (i.e. assume current salaries continue until current employees are expected to begin receiving post-employment benefits).
- (b) ignore future service of current employees (i.e. assume closure of the plan for existing as well as any new employees).
- (c) ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits (i.e. assume all current employees will receive the post-employment benefits). However, mortality after service (ie life expectancy) will still need to be considered.

**NB: the entity will still have to disclose vested and unvested benefits**

**DO WE NEED TO CREATE  
OBLIGATIONS FOR  
CONDITIONAL RETIREMENT  
BENEFITS ?**

- **Service cost**
- **Interest cost**
- **Return on assets**
- **Prior service cost**
- **Contribution by employer to the scheme**
- **Paid to retiree**
- **Pension/asset and liability**

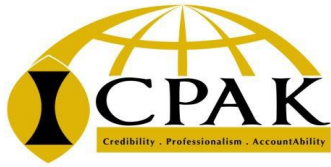


- All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits
- Examples include: long service leave; sabbatical leave; long-term disability benefits; deferred compensation; and profit sharing and bonuses payable 12 months or more after the end of the period in which the employees render the related service
- The accounting treatment for other long-term benefits is similar to that for defined benefit pension plans, albeit that in practice it is a little more straightforward.

Are to be recognized as a liability and expense when the enterprise is demonstrably committed to either:

- a) Terminate the employment of employees before the normal retirement date
- b) Provide termination benefits as a result of an offer made to encourage voluntary redundancy

- Employee benefits provided in exchange for termination of employment as a result of either:
  - Termination of employment before normal retirement date; or
  - Employee decision to accept offer of benefits in exchange for termination
- Termination benefits are a separate category of employee benefits because the event that gives rise to the obligation is the termination rather than employee service
- Examples include (i) redundancy payments, (ii) salary until end of a period if the employee renders no further service
- Liability for termination benefits can only be recognized if the enterprise is demonstrably committed to a termination (IAS 37)
- Liability must be measured at PV if the benefits fall due more than 12 months after reporting date
- For a voluntary redundancy offer, termination benefits must be measured based on the number of employees expected to accept the offer

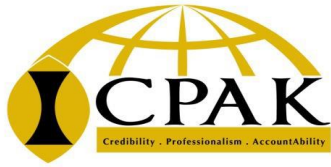


# MULTI –EMPLOYER BENEFIT PLAN

20

**Defined contribution plans** (other than state plans) or defined benefit plans (other than state plans) that:

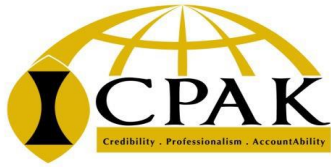
- (a) pool the assets **contributed by various entities** that are not under common control; and
- (b) use those assets **to provide benefits to employees of more than one entity**, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.



# DISCLOSURES ABOUT SHORT TERM BENEFITS

21

This section does not require specific disclosures about short-term employee benefits.



# DISCLOSURES ABOUT DEFINED CONTRIBUTION PLAN

22

- Amount recognized in P&L as expense for defined contribution plan
- If an entity treats a defined benefit multi-employer plan as a defined contribution plan because sufficient information is not available to use defined benefit accounting (see paragraph 28.11) it shall disclose the fact that it is a defined benefit plan and the reason why it is being accounted for as a defined contribution plan, along with any available information about the plan's surplus or deficit and the implications, if any, for the entity.

- **Disclosures about defined benefit plans**
- **Disclosures about other long term benefits**
- **Disclosures about termination benefits**

# CHALLENGES

24

**WHAT ARE CHALLENGES FACING SMESs IN  
THE ADOPTION OF IFRS?**



# QUESTIONS

25

# QUESTIONS?

END

26

THANK YOU!