IPSAS 39
EMPLOYEE BENEFITS

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Effective date

Periods beginning on or after January 1, 2018.

History

IPSAS 39, Employee Benefits, replaced IPSAS 25, Employee Benefits, on January 1, 2018

Main Differences between IPSAS 39 and IPSAS 25

- Removal of an option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the "corridor approach")
- Introduction of the net interest approach for defined benefit plans;
- Amendment of certain disclosure requirements for defined benefit plans and multi-employer plans;

Employee benefits

Employee benefits are all forms of consideration given in exchange for service rendered by employees.

Types of Employee Benefits

a) Short-term benefits:

b)post-employment benefits e.g. pensions, post-employment medical care & post-employment insurance

c)Other long-term benefits e.g profit shares, bonuses , sabbatical leave, long-service benefits & long-term disability benefits.

d)Termination benefits e.g early retirement payments & redundancy payments.

Underlying principle

Cost of providing employee benefits shall be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Accounting Treatment – Short Term Benefits

Short-term employee benefits (payable within 12 months) shall be recognized as an expense in the period in which the employee renders the service.

Bonus payments and profit-sharing payments are to be recognized only when the entity has a legal or constructive obligation to pay them and the obligation can be reliably estimated.

Accounting For Termination Benefits

A termination benefit liability is recognized at the ealier of:

1. Date when the entity can no longer withdraw the offer of the benefit
2. Date when the entity recognizes costs of a restructuring incorporating the retirement benefits

Post employment benefits

The accounting treatment for a post-employment benefit plan depends on the economic substance of the plan and results in the plan being classified as either

- a defined contribution plan or
- a defined benefit plan

Defined contribution plans

The entity pays fixed contributions into a fund but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits

The entity's obligation is therefore effectively limited to the amount it agrees to contribute to the fund and effectively place actuarial and investment risk on the employee.

Accounting For A Defined Contribution Scheme

The amount recognized in the period is the contribution payable in exchange for service rendered by employees during the period

Defined benefit plans

These are post-employment benefit plans other than a defined contribution plans.

These plans create an obligation on the entity to provide agreed benefits to current and past employees and effectively places actuarial and investment risk on the entity.

Accounting for a defined benefit plans

An entity is required to recognize the net defined benefit liability or asset in its statement of financial position

Present Value plan obligation	XX
Fair value plan asset	(XX)
	XX

Retirement Benefit Expense

Components of defined benefit cost is recognized as follows

Component	Recognition
Service cost attributable to the current and past periods	Profit or loss
Net interest on the net defined benefit liability or asset, determined using the discount rate at the beginning of the period	Profit or loss

Amounts Recognized In OCI

Other comprehensive income arising include re-measurements of the net defined benefit liability or asset, comprising:

- actuarial gains and losses
- return on plan assets
- some changes in the effect of the asset ceiling

Actuarial Gains And Losses

These are the differences between expected net plan obligation and the net plan obligation on the reporting date

They are as a result of

- Timing differences
- Changes in actuarial assumptions

Actuarial Gains And Losses – Plan Obligation

Present value b/f	XX
Interest expense	xx
Current service cost	XX
Benefits Paid	(XX)
Expected Obligation	XX
Actuarial Gain/Loss	(XX)/XX
Present Value C/F	XX

Actuarial Gains And Losses – Plan Asset

Fair value b/f	XX
Interest income	xx
Contributions made	XX
Benefits Paid	(XX)
Expected assets	XX
Actuarial Gain/Loss	(XX)/XX
Fair Value C/F	XX

Insurance Premiums For Future Benefits

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

Composite social security programmes

Programs established by legislation, and

(a)Operate as multi-employer plans to provide post-employment benefits; as well as to

(b) Provide benefits that are not consideration in exchange for service rendered by employees.

This will be accounted for in the same way as a multi employer plan

End

GOD BLESS YOU ALL

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