IAS 19 EMPLOYEE BENEFITS

FACT SHEET

Grant Thornton
An instinct for growth™

BE HEARD.
BE RECOGNISED.

CPA AUSTRALIA

This fact sheet is based on existing requirements as at 31 December 2015 and it does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 19 is applicable for annual reporting periods commencing on or after 1 January 2013.

OBJECTIVE

The objective of IAS 19 is to prescribe the accounting and 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 benefits arising from service provided by an employee in exchange for employee benefits.

SCOPE

IAS 19 is applied by an employer in accounting for all employee benefits, except those to which IFRS 2 *Share-based Payment applies.*

RECOGNITION AND MEASUREMENT

Types of employee benefits

IAS 19 deals with the following employee benefits:

- short-term benefits (e.g. wages)
- post-employment benefits (e.g. retirement benefits)
- other long term benefits (e.g. long service leave)
- termination benefits

Short-term Employee Benefits

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:

- 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.
- As an expense, unless another IFRS 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*).

An entity shall recognise the expected cost of short-term employee benefits in the form of paid absences as follows:

a. in the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences

b. the case of non-accumulating paid absences, when the absences occur.

An entity shall measure the expected cost of accumulating paid 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.

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

a. the entity has a present legal or constructive obligation to make such payments as a result of past events; and

b. a reliable estimate of the obligation can be made.

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

Post-employment benefit plans

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Defined contribution plan

Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense and there is no possibility of any actuarial gain or loss.

Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

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 prepayment will lead to, for example, a reduction in future payments or a cash refund.

b. as an expense, unless another IFRS requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IAS 102 and IAS 116).

Defined benefit plan accounting is complex and is likely to require the use of an actuary – refer to detailed guidance in IAS 19.

Defined benefit plans

Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation and the expense and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

Accounting by an entity for defined benefit plans involves the following steps:

a. determining the deficit or surplus.

This involves:

i. using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (IAS 19 paragraphs 67–69). This requires an entity to determine how much benefit is attributable to the current and prior periods (IAS 19 paragraphs 70–74) and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (IAS 19 paragraphs 75–98).

ii. discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (IAS 19 paragraphs 67–69 and 83–86).

   iii. deducting the fair value of any plan assets (IAS 19 paragraphs 113–115) from the present value of the defined benefit obligation.

b. determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (IAS 19 paragraph 64).

c. determining amounts to be recognised in profit or loss:

   i. current service cost (IAS 19 paragraphs 70–74).

   ii. any past service cost and gain or loss on settlement (IAS 19 paragraphs 99–112).

   iii. net interest on the net defined benefit liability (asset) (IAS 19 paragraphs 123–126).

d. determining the remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising:

   i. actuarial gains and losses (IAS 19 paragraphs 128 and 129);

   ii. return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (IAS 19 paragraph 130); and

   iii. any change in the effect of the asset ceiling (IAS 19 paragraph 64), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

An entity shall determine the net defined benefit liability (asset) 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.

Refer to IAS 19 for detailed requirements and guidance on accounting for defined benefit plans.

Other long-term employee benefits

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

a. long-term paid absences such as long-service or sabbatical leave;

b. jubilee or other long-service benefits;

c. long-term disability benefits;

d. profit-sharing and bonuses; and

e. deferred remuneration.

The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognise remeasurements in other comprehensive income.

Termination benefits

An entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognises costs for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

An entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:

a. if the termination benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.

b. if the termination benefits are not expected to be settled wholly before twelve months after the end of the annual reporting period, the entity shall apply the requirements for other long-term employee benefits.

DISCLOSURES

Refer Appendix 1 for a checklist to assist with IAS 19 disclosure requirements.

DEFINITIONS

Defined contribution plans	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
Defined benefit plans	Post-employment benefit plans other than defined contribution plans.
Employee benefits	All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.
Other long-term employee benefits	All employee benefits other than short- term employee benefits, post-employment benefits and termination benefits.
Post-employment benefit plans	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.
Post-employment benefits	Employee benefits (other than termination benefits and short term employee benefits) that are payable after the completion of employment.
Short-term employee benefits	Employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.
Termination benefits	Employee benefits provided in exchange for the termination of an employee's employment as a result of either: a. an entity's decision to terminate an employee's employment before the normal retirement date; or b. an employee's decision to accept an offer of benefits in exchange for the termination of employment.

RELATED INTERPRETATIONS

- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 119 *Employee Benefits.*

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 A*pplication of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text. Additional disclosure requirements that are applicable to RDR entities only are included in a separate table in Appendix 1.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
DEFINED CONTRIBUTION PLANS			
IAS 19.53	Has the entity disclosed the amount recognised as an expense for defined contribution plans?		
IAS 19.54	Where required by IAS 24, has the entity disclosed information about contributions to defined contribution plans for key management personnel?		
DEFINED-BENEFIT PLANS			
IAS 19.131	Has the entity 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?		
IAS 19.135	Has the entity disclosed information that: a. explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 139); b. identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 140–144); and c. describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 145–147)?		
IAS 19.137	If the disclosures provided in accordance with the requirements in this Standard and other IFRSs are insufficient to meet the objectives in paragraph 135, has the entity disclosed additional information necessary to meet those objectives?		
IAS 19.138	Has the entity assessed whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 19.139	Has the entity disclosed: a. information about the characteristics of its defined benefit plans, including: i. the nature of the benefits provided by the plan; ii. a description of the regulatory framework in which the plan operates; iii. a description of any other entity's responsibilities for the governance of the plan; b. a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk; and c. a description of any plan amendments, curtailments and settlements?		
IAS 19.140	Has the entity provided a reconciliation from the opening balance to the closing balance for each of the following, if applicable: a. the net defined benefit liability (asset), showing separate reconciliations for: i. plan assets. ii. the present value of the defined benefit obligation. iii. the effect of the asset ceiling. b. any reimbursement rights. Has the entity also described the relationship between any reimbursement right and the related obligation?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 19.141	Each reconciliation listed in paragraph 140 shall show each of the following, if applicable: a. current service cost; b. interest income or expense; c. remeasurements of the net defined benefit liability (asset), showing separately: i. the return on plan assets, excluding amounts included in interest in (b). ii. actuarial gains and losses arising from changes in demographic assumptions (see paragraph 76(a)). iii. actuarial gains and losses arising from changes in financial assumptions (see paragraph 76(b)). iv. changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, ie whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both. d. past service cost and gains and losses arising from settlements. As permitted by paragraph 100, past service cost and gains and losses arising from settlements need not be distinguished if they occur together; e. the effect of changes in foreign exchange rates; f. contributions to the plan, showing separately those by the employer and by plan participants; g. payments from the plan, showing separately the amount paid in respect of any settlements; h. the effects of business combinations and disposals.		
IAS 19.142	Has the entity disaggregated the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in IFRS 13 Fair Value Measurement) and those that do not?		
IAS 19.143	Has the entity disclosed the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 19.144	Has the entity disclosed the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 76)? Such disclosure shall be in absolute terms. If the entity provided disclosures in total for a grouping of plans, has it provided such disclosures in the form of weighted averages or relatively narrow ranges?		
IAS 19.145	Has the entity disclosed: a. a sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 144) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date; b. the methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods; c. changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes?		
IAS 19.146	Has the entity disclosed a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk?		
IAS 19.147	To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, has the entity disclosed: a. a description of any funding arrangements and funding policy that affect future contributions; b. the expected contributions to the plan for the next annual reporting period; c. information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
MULTI-EMPLOYER PLANS			
IAS 19.148	If an entity participates in a multi-employer defined benefit plan, has it disclosed: a. a description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements; b. a description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan; c. a description of any agreed allocation of a deficit or surplus on: i. wind-up of the plan; or ii. the entity's withdrawal from the plan d. if the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 139–147: i. the fact that the plan is a defined benefit plan. ii. the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan. iii. the expected contributions to the plan for the next annual reporting period. iv. information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity. v. an indication of the level of participation of the entity in the plan compared with other participating entities.		
DEFINED BENEFIT PLANS THAT SHARE RISKS BETWEEN ENTITIES UNDER COMMON CONTROL			
IAS 19.149	If an entity participates in a defined benefit plan that shares risks between entities under common control, has it disclosed: a. the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy; b. the policy for determining the contribution to be paid by the entity; c. if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147; d. if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147(a) and (b)?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 19.150	The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if: a. that group entity's financial statements separately identify and disclose the information required about the plan; and b. that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.		
IAS 19.151	Where required by IAS 24, has the entity disclosed information about: a. related party transactions with post-employment benefit plans; and b. post-employment benefits for key management personnel?		
IAS 19.152	Where required by IAS 37, has the entity disclosed information about contingent liabilities arising from post-employment benefit obligations?		

ADDITIONAL DISCLOSURE REQUIREMENTS APPLICABLE TO RDR ENTITIES ONLY

CODE		YES / NO / N/A	EXPLANATION (*If required*)
AASB 119 RDR140.1	An entity applying RDR is not required to disclose the reconciliations specified in paragraphs 140 and 141 for prior periods.		

OTHER MATTERS

LEGAL NOTICE

DISCLAIMER

LIMITATION OF LIABILITY

CPAH1814 02-16