

SCOPE

- Applied by:** employer in accounting for ALL *employee benefits*, **EXCEPT** those under IFRS 2 *Share-based Payment*.
- **Employee benefits** = ALL forms of consideration given to employees (includes directors/management) in exchange for service or termination of employment.

SHORT-TERM EMPLOYEE BENEFITS

Employee benefits (other than termination benefits) expected to be settled wholly before 12 months after annual reporting period-end in which service is rendered.

- E.g. wages, salary, paid annual and sick leave, bonuses, travel allowances, etc.

When employee renders service during accounting period → recognize undiscounted amount expected to be paid in exchange for service as:

- **Expense**, unless other IFRS requires/permits inclusion in cost of asset e.g., IAS 2 *Inventories* or IAS 16 *Property, Plant and Equipment* (also applies to ALL other employment benefit expenses).
- **Liability (accrued expense)**, after deducting amount already paid.
- **Asset (prepaid expense)**, if amount paid > expense → recognize excess to the extent that prepayment will lead to future ↓ in payments/cash refund.

PAID ABSENCES

(e.g. annual leave, sick leave, maternity, disability, etc.)

PROFIT-SHARING / BONUS PLANS

(payable within 12 months)

Accumulating:

- If unused → can be carried forward/used in future.
- Vesting = cash payment for unused entitlement on leaving/retirement (vs. non-vesting where no cash pmt).

Non-accumulating:

- If unused → lapse (no cash payment).
- Recognize expense & liability at time of absence.

- **Expense/liability:** recognized when employees render services that ↑ their benefits' entitlement.
- **Obligation @ period end:** amount expected to pay in future as result of unused entitlement.
- Measurement reflects possibility of forfeitures of non-vesting benefits.

- Recognize expected cost when present obligation exists AND reliable estimate can be made.
- Present obligation = no realistic alternative but to make payments (e.g., legally bound/ constructively obliged through past practice).
- If employees must remain in service for specified period → creates constructive obligation as service rendered that ↑ amount to be paid.
- Measurement reflects possibility of forfeiture.

POST-EMPLOYMENT BENEFITS

Employee benefits other than termination benefits and short-term employee benefits payable after completion of employment.

- Formal or informal arrangements/plans (e.g., pensions, post-employment medical/life insurance).

DEFINED BENEFIT PLANS

Entity's obligation → to provide agreed benefit to current/former employees.

- Actuarial and investment risk fall in substance on entity.
- If practice of increasing benefits to keep pace with inflation → constructive obligation created even where no legal obligation to do so exists.

Recognize in profit or loss:

- Service costs → comprising of: current and past (e.g., from plan amendments or curtailments) service costs and gain/loss on settlement.
- Net interest → calculated by applying discount rate to net defined asset/liability.

Recognize remeasurements in other comprehensive income → comprising of: actuarial gains and losses, return on plan assets and changes in effect of *asset ceiling* (excluding amounts included in net interest).

Net defined benefit liability (asset) = *deficit or surplus* adjusted for effect of limiting an asset to the *asset ceiling*.

Deficit or surplus = PV of defined benefit obligation less FV of plan assets (if any).

Asset ceiling = PV of economic benefits available as refunds from plan or reductions in future contributions to plan.

DEFINED CONTRIBUTION PLANS

Entity's legal/constructive obligation → limited to amount it agreed to contribute. Rate of return not guaranteed, benefit solely linked to contribution by employer and/or employee.

- Actuarial and investment risk fall in substance on employee.

Recognize contribution payable in exchange for service rendered during accounting period as:

- **Expense**, unless other IFRS requires/permits inclusion in cost of asset (e.g., inventory/PPE).
- **Liability (Accrued expense)**, after deducting amount already paid.
- **Asset (Prepaid expense)**, if amount paid > expense → recognize excess to the extent that prepayment will lead to future ↓ in payments/cash refund.

Measurement: Only discount if contributions are NOT expected to be settled wholly within 12 months after period end.

- **Discount rate** = market yield on high quality corporate bonds with currency and term consistent with obligation.

OTHER LONG-TERM EMPLOYEE BENEFITS

Employee benefits other than short-term, post-employment or termination benefits.

- E.g. sabbatical/long-service leave, long-term disability, bonus/compensation to be paid if expected to be settled wholly 12 months after annual reporting period-end in which service is rendered.
- Simpler method of accounting that (unlike accounting for *post employment benefits*) does not recognize remeasurements in other comprehensive income (because less uncertainty).
- **Surplus or deficit and any reimbursement right** → recognize and measure the same as for defined benefit plan.
- **Net total of service costs, net interest on the net defined benefit liability/asset and remeasurements** → recognize in profit or loss unless other IFRS requires/permits inclusion in cost asset (e.g., inventory/PPE). Amounts are calculated as for a defined benefit plan.
- **Long-term disability:** if level of benefit depends on length of service → obligation/cost arises as service is rendered. If benefit is the same for any employee regardless of service → cost recognized upon disabling event.

TERMINATION BENEFITS

Employee benefits provided in exchange for termination of employment.

- E.g. lump sum, enhancement of post-employment benefits, salary till end of specified notice period.
- Can result from either: entity's decision to terminate employee before normal retirement date OR employee's decision to accept benefits in exchange for termination.
- Not conditional on future service being provided; therefore, requirements to attribute benefit to periods of service is not relevant.

Recognize liability and expense → @ earlier of when entity can no longer withdraw the offer AND entity recognized costs for restructuring that is within scope of IAS 37 and involves termination benefits.

Measurement: Initial recognition & subsequent changes in accordance with nature of benefit.

If enhancement to post-employment benefits → apply post-term employee benefit requirements. Otherwise:

- Settled wholly < 12 months after end of annual reporting period → account as short-term benefits.
- Settled wholly ≥ 12 months after end of annual reporting period → account as long-term benefits.